GAROFALO HEALTH CARE GROUP

Interim Consolidated Financial Statement at June 30, 2018

GAROFALO HEALTH CARE GROUP
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT JUNE 30, 2018

Consolidated Statement of Financial Position at June 30, 2018

In Euro thousands		**At June 30, 2018**	**At December 31, 2017**
Goodwill	Note 2	38.815	38,815
Intangible assets	Note 3	14.174	14,276
Property, plant and equipment	Note 4	88.162	89,950
Investment properties	Note 5	1.045	1,063
Investment in associates and joint ventures	Note 6	924	788
Other non-current financial assets:	Note 7	50	56
Other non-current assets	Note 8	1.006	1,084
Deferred tax assets	Note 9	3.324	3,326
TOTAL NON-CURRENT ASSETS		**147.500**	**149,358**
Inventories	Note 10	2.162	2,352
Trade receivables	Note 11	42.147	38,399
Tax receivables	Note 12	1.176	2,018
Other receivables and current assets	Note 13	2.837	1,503
Other current financial assets	Note 14	25	3
Cash and cash equivalents	Note 15	29,338	22,635
TOTAL CURRENT ASSETS		**77.685**	**66,910**
TOTAL ASSETS		**225.185**	**216,268**

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

		At June 30, 2018	At December 31, 2017
Share capital	Note 16	300	300
Legal reserve	Note 16	60	40
Other reserves	Note 16	94,847	82,685
Net income attributable to owners of the parent	Note 16	8,755	12,241
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		**103,962**	**95,266**
Capital and reserves attributable to non-controlling interests	Note 16	6,590	6,544
Net income attributable to non-controlling interests	Note 16	230	68
TOTAL EQUITY		**110,782**	**101,878**
Employee benefits liabilities	Note 17	9,124	9,119
Provisions	Note 18	7,593	8,397
Non-current financial liabilities	Note 19	25,386	34,502
Other non-current liabilities	Note 20	-	-
Deferred tax liabilities	Note 10	8,096	7,642
Non-current liabilities for derivative	Note 21	11	11
TOTAL NON-CURRENT LIABILITIES		**50,210**	**59,671**
Trade payables	Note 22	22,553	19,296
Current financial liabilities	Note 23	25,176	20,496
Tax payables	Note 24	5,315	3,908
Other current liabilities	Note 25	11,149	11,019
TOTAL CURRENT LIABILITIES		64,193	**54,719**
TOTAL LIABILITIES		**114,403**	**114,390**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**225,185**	**216,268**

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

Consolidated Statement of Income for the six months ended June 30, 2018

In Euro thousands		**For the six months ended June 30, 2018**	**For the six months ended June 30, 2017**
Revenue from services	Note 25	79,535	65,723
Other revenue	Note 26	786	342
TOTAL REVENUE		**80,321**	**66,065**
Cost for raw materials and consumables	Note 27	11,600	10,562
Costs for services	Note 28	29,338	23,226
Personnel costs	Note 29	19,815	17,134
Other operating costs	Note 30	3,503	3,386
Depreciation, amortization and write-downs	Note 31	3,188	2,755
Allocation to provisions	Note 32	121	1,270
TOTAL OPERATING COSTS		**67,565**	**58,333**
OPERATING RESULT		**12,756**	7,732
Financial income	Note 33	1	759
Financial expenses	Note 34	(583)	(401)
Results of investments in accordance with the equity method	Note 35	154	-
TOTAL FINANCIAL INCOME AND EXPENSES		**(428)**	**358**
INCOME BEFORE INCOME TAXES		**12,328**	**8,090**
Income taxes	Note 36	3,343	2,111
NET INCOME FOR THE PERIOD	Note 37	**8,985**	**5,979**
Attributable to:			
Owners of the parent	Note 38	8,755	5,947
Non-controlling interests	Note 38	230	32
Basic and diluted earnings per share (*in Euro units*)	Note 39	**0,15**	**0,10**

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income for the six months ended June 30, 2018

In Euro Thousands	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Net income for the period	**8,985**	**5,979**
Other items of the Comprehensive Income Statement that will not be subsequently reclassified in the profit/loss of the period		
Actuarial gains (losses) on defined-benefit plans	(112)	90
Tax effect	27	(22)
Total other items of the Comprehensive Income Statement that will not be subsequently reclassified in the profit/loss of the period net of taxes	**(85)**	**68**
Profits and (losses) recognized in equity	**(85)**	**68**
Total comprehensive income of the period	**8,900**	**6,047**
Attributable to:		
Owners of the parent	8,692	6,000
Non-controlling interests	208	47

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

Statement of Changes in Consolidated Equity for the six months ended June 30, 2018

In Euro Thousands	Share capital	Legal reserve	Other reserves	Group result for the period	Group equity	Minorities' capital and reserves	Minorities result of the period	Consolidated shareholders' equity
	In Euro thousands							
Balances at January 1, 2017	**300**	**20**	**70,938**	**5,491**	**76,749**	**2,234**	**142**	**79,125**
Allocation of Net Income	-	20	5,471	(5,491)	**-**	142	(142)	**7,943**
Total comprehensive income	-	-	53	5,947	**6,000**	15	32	**6,047**
Capital increase..	-	-	3,776	-	**3,776**	755	-	**4,531**
Other changes....	-	-	31	-	**31**	-	-	**31**
Balances at June 30, 2017	**300**	**40**	**80,269**	**5,947**	**86,556**	**3,146**	**32**	**89,734**
Balances at January 1, 2018	**300**	**40**	**82.685**	**12,241**	**95,266**	**6,544**	**68**	**101,878**
Allocation of net income	-	20	12,221	(12,241)	-	68	(68)	-
Total comprehensive income	-	-	(63)	8,755	**8,692**	(22)	230	**8,900**
Other changes....	-	-	4	-	**4**		-	**4**
Balances at June 30, 2018	**300**	**60**	**94,847**	**8,755**	**103,962**	**6,590**	**230**	**110,782**

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

Consolidated Statement of Cash Flows for the six months ended June 30, 2018

In Euro Thousands	For the six months ended June 30, 2018	June 30, 2017
OPERATING ACTIVITIES		
NET INCOME FOR THE PERIOD	**8,985**	**5,979**
Adjustments for:		
- Depreciation and amortization of tangible and intangible assets	3,004	2,655
- Accrual to employee benefits	1,019	975
- Accrual to provisions	121	1,270
- Accrual to provision for bad debts	185	100
- Change in investments in associates valued with the Equity Method	(154)	-
- Change in other non-current assets and liabilities	84	40
- Change in deferred tax assets and liabilities	482	24
- Change in fair value of financial instruments	-	(7)
- Payments for employee benefits	(1,125)	9
- Payments for provisions	(917)	-
- Changes in operating assets and liabilities:		
(Increase) decrease in trade receivables and other receivables	(3,933)	2,928
(Increase) decrease in inventories	190	145
Increase (decrease) in trade payables and other payables	3,257	1,297
Other current assets and liabilities	1,062	(2,748)
CASH FLOW PROVIDED BY OPERATING ACTIVITIES (A)	**12,259**	**12,667**
CASH FLOW FROM INVESTMENT ACTIVITIES		
Investments in tangible assets	(58)	(52)
Investments in intangible assets	(1,055)	(1,600)
Change in Financial assets	(8)	(291)
Acquisition of Fi.d.es Group, net of cash acquired	-	(29,913)
CASH FLOW USED IN INVESTMENT ACTIVITIES (B)	**(1,120)**	**(31,856)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from medium/long-term loans	-	13,000
Repayment of medium/long-term loans	(2,968)	(2,064)
Disbursement/(repayments) of short-term loans	(1,467)	3,905
Dividend distribution	-	(750)
Share capital increase and shareholder contributions	-	4,531
NET CASH FLOW PROVIDED BY (USED IN) FINANCING ACTIVITIES (C)	**(4,435)**	**18,622**
TOTAL CASH FLOW (D=A+B+C)	**6,703**	**(567)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (E)	**22,635**	**19,192**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (F=D+E)	**29,338**	**18,625**
Additional information:		
Interest paid	**354**	**206**
Income taxes paid	**39**	**166**

The accompanying notes are an integral part of the Interim Consolidated Financial Statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2018

Note 1 Accounting standards of reference and preparation criteria adopted in preparing the Interim Consolidated Financial Statements at June 30, 2018

1.1 Corporate Information

The publication of the Interim Consolidated Financial Statements of Garofalo Health Care S.p.A. ("**GHC**", the "**Company**") and its subsidiaries (together with the company, the "**GHC Group**" or the "**Group**") for the six months ended June 30, 2018 was authorized by the Board of Directors on September 3, 2018.

1.2 General principles

The consolidated financial statements of the GHC Group for the six months ended June 30, 2018 (the "**Interim Consolidated Financial Statements**") have been prepared in compliance with the IAS/IFRS international accounting standards issued by the IASB - International Accounting Standards Board - approved by the European Union ("**IFRS**") supplemented by the related interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), previously called the Standing Interpretations Committee (SIC), as well as the provisions issued in implementation of article 9 of Legislative Decree no. 38/2005. The IFRSs applied are those in effect at the date of approval of the Interim Consolidated Financial Statements.

During the second-half of 2018, the Company will evaluate the impacts of the adoption of the forthcoming accounting standards.

The adoption of the IFRS took place starting from 2015, the first consolidated financial statements prepared by the Company.

The Interim Consolidated Financial Statements have been prepared solely for the purpose of inclusion in the Prospectus relating to the planned admission to trading on the Electronic Stock Exchange (Mercato Telematico Azionario - MTA) organized and managed by Borsa Italiana S.p.A. of the Company's shares.

The Interim Consolidated Financial Statements are presented in Euro and all amounts are rounded to thousands of Euro, unless otherwise indicated.

The Interim Consolidated Financial Statements have been prepared based on the historical cost principle, except for derivative financial instruments that have been recognized at fair value. The Interim Consolidated Financial Statements are presented in Euro and all amounts are rounded to thousands of Euro, unless otherwise indicated.

These financial statements, in the absence of uncertainties or doubts about the ability to continue business in a foreseeable future, have been prepared on the basis of business continuity. Based on the aforementioned principle, the Company was considered able to continue its business and therefore the assets and liabilities were accounted for on the assumption that the company will be able to carry out its activities and meet its liabilities during the normal course of business activity.

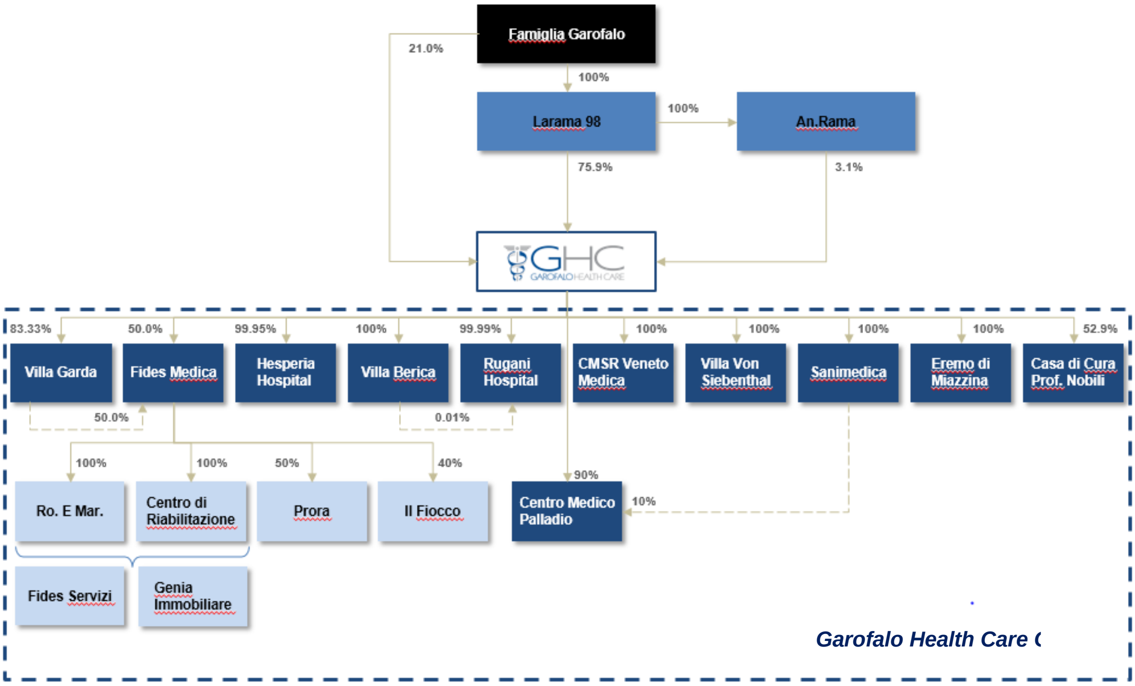
1.3 Financial Statements

The Interim Consolidated Financial Statements of the Company consist of the Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Statement of Changes in Consolidated Equity, Consolidated Statement of Cash Flows and Notes.

The Balance Sheet has been classified on the basis of the operating cycle, with the distinction between current/non-current items. Based on this distinction, assets and liabilities are considered current if they are to be realized or settled in the normal operating cycle. The revenue and cost items recorded during the year are presented in two tables: an income statement, which reflects the analysis of the aggregate costs by nature, and a statement of comprehensive income. Lastly, the cash flow statement was prepared using the indirect method for determining the cash flows deriving from operating activities. With this method, the profit of the year is adjusted for the effects of the transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

1.4 Group Structure

The composition of the Group at June 30, 2018 is provided below.



1.5 Consolidation principles and scope of consolidation

The Interim Consolidated Financial Statements include the financial statements of Garofalo Health Care S.p.A. and its subsidiaries at June 30, 2018. The Interim Consolidated Financial Statements consolidate the companies under common control of the subjects relating to the GHC controlling entities for the periods prior to the date of transfer to the Company.

The details of the consolidated companies are shown below.

Company	Registered Office	Structure	At June 30, 2018	At December 31, 2017
Garofalo Health Care S.p.A.	Rome	Holding	Parent	Parent
Hesperia Hospital Modena S.p.A.	Modena	Accredited healthcare facility	99,95%	99,95%
Casa di Cura Villa Berica S.p.A.	Vicenza	Accredited healthcare facility	100%	100%
Rugani Hospital S.r.l.	Siena	Accredited healthcare facility	100%	100%

CMSR Veneto Medica S.r.l.	Vicenza	Accredited healthcare facility	100%	100%
Sanimedica S.r.l.	Vicenza	Accredited healthcare facility	100%	100%
Centro Medico Palladio S.r.l. in liquidation..........	Vicenza	Accredited healthcare facility	100%	100%
L'Eremo di Miazzina S.p.A.	Verbania	Accredited healthcare facility	100%	100%
Casa di Cura Villa Garda S.p.A..........................	Garda	Accredited healthcare facility	83,3%	83,3%
Villa Von Siebenthal S.r.l.	Genzano Romano	Accredited healthcare facility	100%	100%
Casa di Cura Prof. Nobili S.p.A..........................	Castiglione di Pepoli (Bo)	Accredited healthcare facility	52.9%	52.9%
Fides Medica S.r.l.	Piombino	Accredited healthcare facility	100%	100%
Centro di Riabilitazione S.r.l.	Genoa	Accredited healthcare facility	100%	100%
Genia Immobiliare S.r.l.	Genoa	Real estate company of the FIdes Group	100%	100%
Ro. E. Mar S.r.l.	Piombino	Accredited healthcare facility	100%	100%
Fides Servizi S.c.a.r.l.	Genoa	Company that provides services to the Fides Medica Group	100%	100%
Prora S.r.l.	Genoa	Accredited healthcare facility	100%	100%

There are no changes in the scope of consolidation.

Ultimate parent

The ultimate parent of Garofalo Health Care S.p.A. is Raffaele Garofalo & C. S.A.p.A. and domiciled in Rome.

Associated companies

The Group holds a 40% shareholding in Il Fiocco S.c.a.r.l., following the acquisition of the Fides Group.

1.6 Summary of the main accounting standards

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is determined as the sum of the amount transferred, measured at fair value at the acquisition date and the amount of the minority shareholding in the acquiree. For each business combination, the Group decides whether to measure any minority interest in the acquiree at fair value or in proportion to the minority share of the acquiree's net identifiable assets. Acquisition costs are expensed in the year and classified as administrative expenses.

When the Group acquires a business, it classifies or designates the financial assets received and the liabilities assumed in accordance with the terms of the contract and the economic and other conditions in effect on the acquisition date. This includes the verification to determine whether an embedded derivative must be separated from the primary contract.

Any contingent amount is recognized at the fair value at the acquisition date. The contingent amount classified as equity is not remeasured and its subsequent payment is accounted for with a balancing entry in shareholders' equity. The change in the fair value of the contingent amount classified as an asset or liability, as a financial instrument covered by IFRS 9 Financial instruments: recognition and measurement, must be recognized in the income statement in accordance with IFRS 9. The contingent amount that does not fall within the scope of IFRS 9 is measured at fair value at the reporting date and changes in fair value are recognized in the income statement.

Goodwill is initially stated at cost represented by the excess of the total amount paid and the amount recognized for minority interests in respect of the net identifiable assets acquired and the liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the total amount paid, the Group again verifies whether it correctly identified all the assets acquired and all the liabilities assumed and revises the procedures used to determine the amounts to be recognized at the acquisition date. If the new valuation still shows a fair value of the net assets acquired higher than the amount, the difference (profit) is recognized in the income statement.

After its initial recognition, goodwill is valued at cost net of accumulated impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of the disposal. The goodwill associated with the operation disposed of is determined on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) Other intangible assets

Intangible assets acquired separately are initially recognized at cost, while those acquired through business combinations are recognized at fair value on the acquisition date. After initial recognition, intangible assets are recognized at cost, net of accumulated amortization and accumulated impairment, if any. Intangible assets internally generated, with the exception of development costs, are not capitalised and are recorded in the income statement of the financial year in which they were incurred.

Intangible assets with a definite useful life are amortized over their useful life and tested for impairment whenever there is evidence of a loss of value. The amortization period and the amortization method of an intangible asset with definite useful life are reconsidered at least at the end of each year. Changes in the expected useful life or in the manner in which the future economic benefits related to the asset will be realized are recognized through the change in the period or amortization method, as the case may be, and are considered changes in accounting estimates. The amortization of intangible assets with definite useful life is recognized in the annual profit/(loss) statement in the cost category that reflects the function of the intangible asset.

Intangible assets with indefinite useful life are not amortized but are subject to an annual impairment test at an individual level or at cash-generating unit level. The valuation of the indefinite useful life is reviewed annually to determine whether this allocation continues to be sustainable, otherwise, the change from indefinite useful life to definite useful life is applied on a prospective basis.

The profits or losses deriving from the derecognition of an intangible asset are calculated as the difference between the net revenue from the disposal and the carrying value of the intangible asset and are recognized in the Profit/(Loss) Statement of the year at the time of derecognition.

Description	Years
Goodwill	indefinite useful life
Accreditation	indefinite useful life
Concessions, licenses, trademarks and similar rights....................	5 years
Software	5 years
Other intangible assets	5 years

c) Property, plant and equipment

Property, plant and equipment purchased separately are recorded at historical cost, including ancillary costs directly attributable and necessary for entry into operation of the asset for the use for which it was purchased; said cost includes expenses for the replacement of part of machinery and plants at the time they are incurred, if they comply with the recognition criteria.

Property, plant and equipment acquired through business combinations are recognized at fair value determined at the acquisition date.

Maintenance and repair expenses that do not add value to or extend the residual lives of assets are expensed as incurred; otherwise, they are capitalized.

Property, plant and equipment are stated net of the relevant accumulated depreciation and impairment, if any, determined according to the methods described below. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. This period is reviewed annually and any changes are made on a prospective basis.

The estimated useful life, expressed in years, of the main classes of tangible assets is as follows:

Description	Years
Buildings	33 / 50 / based on the duration of contracts
Plants and machinery	10 years
Industrial and commercial equipment..	8 years
Furniture and fittings	10 years
Electronic machines	5 years
Vehicles and cars	4 years

If components of property, plant and equipment have different useful lives, these components are accounted for separately. Land, whether free of construction or related to buildings, is recognized separately and is not depreciated as elements of unlimited useful life.

The book value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recovered, following the rules described below.

An asset should be removed from the balance sheet upon disposal or when no future economic benefits are expected from its use. The gain or loss on disposal (calculated as the difference between proceeds and carrying value) is recognized in the income statement in the year the asset is derecognized.

d) Leased assets

The definition of a contractual agreement as a lease transaction (or containing a lease transaction) is based on the substance of the agreement and requires an assessment of whether fulfilment of the agreement depends on the use of one or more specific assets and if the agreement transfers the right to use them. The verification that an agreement contains a lease is carried out at the beginning of the agreement.

A lease contract is classified as a financial lease or an operating lease at the beginning of the lease. Lease contracts that transfer substantially all the risks and rewards of ownership of the leased asset to the Group are classified as financial leases.

Financial leases are capitalized on the lease start date at the fair value of the leased asset or, if lower, at the present value of the lease instalments. The lease payments are divided between principal and interest so as to obtain the application of a constant interest rate on the residual balance of the debt. Financial expenses are recognized in the income statement.

Leased assets are depreciated on the basis of the useful life of the asset. However, where there is no reasonable certainty that the Group will obtain ownership of the asset at the end of the contract, the asset is amortized over the shorter period of time between the estimated useful life of the asset and the duration of the lease contract.

An operating lease is a lease contract that does not qualify as a financial lease. Operating lease payments are recognized as costs in the income statement on a straight-line basis over the duration of the contract.

e) Investments properties

Tangible assets held for income and not for instrumental use are classified in a specific class called Investments properties, in accordance with IAS 40, and are accounted for at cost. The assets included in these cases consist of land and/or buildings (or parts of buildings) held by the owner or tenant under a finance or operating lease in order to lease them or for the appreciation of the capital invested.

These types of properties are classified separately from other owned assets. Investments properties are shown net of the related accumulated depreciation and any impairment. The useful life of the Group’s Investments properties is 33 years.

f) Impairment of assets

On each reporting date, the Group assesses whether there is evidence of impairment of Intangible assets and Property, plant and equipment. In the event that these indicators emerge, an impairment test is carried out.

In the event that the carrying value (book value) of the assets exceeds the recoverable value, they are written down to reflect the latter. The recoverable amount is determined as the higher of the fair value of an asset or cash-generating unit net of costs of sale and its use value and is determined for each asset individually, unless an asset generates cash flows that are not largely independent from those generated by other assets or groups of assets; in this case, the Group estimates the recoverable value of the cash-generating unit to which the asset belongs.

In measuring the value in use, the Group discounts the future estimated cash flows to their present value, using a pre-tax discount rate that reflects the market assessments of the time value of money and the specific risks associated with the asset.

For the purpose of estimating the value in use, future cash flows are derived from the business plans approved by the Board of Directors, which constitute the best estimate that can be made by the Group on the economic conditions expected in the period of the plan. The projections of the plan normally cover a time span of three years; the long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate of the sector, country or market of reference. The future financial flows are estimated by referring to current conditions: the estimates therefore do not consider neither the benefits deriving from future renovations for which the Company has not yet committed nor the future investments for improvement or optimization of the asset or unit.

If the book value of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses relating to continuing operations are recognized in expense categories consistent with the function of the impaired asset. At each reporting date, the Group also assesses the existence of indicators of a decrease in previously recognized impairment losses and, if such indicators exist, makes a new estimate of the recoverable amount. A previously recognized impairment loss can be reversed only if there have been changes in the estimates used to determine the recoverable amount since the last impairment loss was recognized. In that case, the book value of the asset is increased to the recoverable amount; however, the increased book value must not exceed the book value that would have been determined (net of amortization or depreciation) had no impairment loss been recognized. Each reversal is recognized as income in the income statement; after a reversal is recognized, the depreciation or amortization charge for the asset is adjusted in future periods to allocate the asset's revised book value, less its residual value, if any, on a systematic basis over its remaining useful life. Impairment of goodwill cannot in any case be subject to reversals.

g) Investments in associated and other companies

An associate is a company over which the Group exercises significant influence. Significant influence is the power to participate in determining the financial and operating policies of the investee, without control or joint control. An investee holding 20% or more indicates significant influence unless the contrary is proven.

Investments of the Group in associated companies are measured using the equity method.

With the equity method, the investment in an associated company is initially recorded at cost. The accounting value of the investment is increased or decreased to recognize the investor's share of the profits and losses of the investee realized after the acquisition date. The goodwill relating to the associate is included in the book value of the investment and is not subject to a separate impairment test.

The profit/(loss) statement for the year reflects the Group's portion of the operating result of the associated company. Any change in the other components of the comprehensive income statement relating to these investee companies is presented as part of the Group's comprehensive income statement. Furthermore, in the event that an associated company recognizes a change directly attributable to shareholders' equity, the Group recognizes its portion, where applicable, in the statement of changes in equity. Unrealized gains and losses deriving from transactions between the Group and associated companies are derecognized in proportion to the shareholding in associates.

The aggregate portion attributable to the Group of the result for the year of associated companies is shown in the profit/(loss) statement for the year after the operating result and represents the result net of taxes and of the portions of the other shareholders of the associate.

The financial statements of associates are prepared on the same closing date as the Group financial statements. Where necessary, the financial statements are adjusted to conform them with the Group's accounting standards.

After applying the equity method, the Group assesses whether it is necessary to recognize an impairment loss of its investment in the associated companies. At each reporting date, the Group assesses whether there is objective evidence of an impairment loss of the associated companies. In this case, the Group calculates the amount of the loss as the difference between the recoverable value of the associate or the joint venture and the carrying amount of the same in its financial statements, recognizing said difference in the profit/loss statement in the item "portion of the result of associates and joint ventures".

Upon loss of significant influence over an associated company or joint control over a joint venture, the Group assesses and recognizes the residual shareholding at fair value. The difference between the carrying amount of the investment at the date of the loss of significant influence or of the joint control and the fair value of the residual investment and the amount received is recognized in the income statement.

h) Current/non-current classification

Assets and liabilities in the financial statements of the Group are classified according to the current/non-current criterion.

An asset is current when:

- it is expected to be realized, or is held for sale or consumption, in the normal course of the operating cycle;
- it is held mainly for the purpose of negotiating it;
- it is expected to be realized within twelve months of the closing date of the year; or
- it consists of cash or cash equivalents unless it is forbidden to exchange it or use it to settle a liability for at least twelve months from the closing date of the financial year.

A liability is current when:

- it is expected to be settled in its normal operating cycle;
- it is held mainly for the purpose of negotiating it;
- it must be settled within twelve months of the closing date of the year; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months of the closing date of the year.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

i) Inventories

Inventories are stated at the lower cost between the acquisition or manufacturing cost, determined according to the FIFO method and the estimated realizable value based on market prices.

The purchase cost also includes directly attributable ancillary costs and returns, trade discounts, rebates, premiums and any contributions recognized by suppliers are always deducted from the same.

The value of inventories was recorded net of any impairment provisions.

j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand and short-term deposits. Short-term deposits must have an original maturity of three months or less and not subject to significant risks related to the change in value.

k) Financial payables

All loans are initially recognized at fair value of the amount received, less ancillary costs incurred in connection with the arrangement of the loan.

After initial recognition, loans are measured at amortized cost, using the effective interest rate method.

Any gain or loss is recognized in the income statement when the liability is extinguished, as well as through the amortization process.

l) Provisions

Allocations to Provisions for risks and charges are made when the Group must fulfil a current obligation (legal or implicit) arising from a past event, when an outflow of resources in order to fulfil this obligation is probable and it is possible to make a reliable estimate of its amount.

If the discounting effect of the value of money is significant, allocations are discounted using a pre-tax discount rate that reflects, where appropriate, the specific risks associated with the liabilities. When provisions are discounted, increases resulting from the passage of time are recognized as borrowing costs.

m) Provisions for employee benefits

Post-employment benefits are defined on the basis of programs, even if not formalized, which according to their characteristics are divided into “defined benefit” programs and “defined contribution” programs.

Italian legislation (article 2120 of the Civil Code) provides that, on the date on which each employee terminates the employment contract with the company, indemnity referred to as TFR is received. The calculation of this indemnity is based on some items that make up the employee’s annual salary for each year of work (appropriately re-evaluated) and on the length of the employment relationship. According to Italian civil law, this indemnity is reflected in the financial statements according to a calculation method based on the indemnity accrued by each employee at the reporting date, in the event that all employees terminate the employment contract on that date.

The International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) addressed the subject of the Italian TFR and concluded that, in application of IAS 19, it must be calculated according to a method called Projection Unitary Credit Method (PUCM), according to which the amount of liabilities for the benefits acquired must reflect the date of expected resignation and must be discounted.

The actuarial assumptions and the related effects take into consideration the regulatory changes introduced by the Italian legislator, which provided for the option for the employee to allocate the TFR accrued from July 1st, 2007 to INPS or supplementary pension funds.

The Group's net obligation deriving from defined benefit plans is calculated by estimating the amount of the future benefit that employees have accrued in exchange for the activity performed in the current year and in previous years; this benefit is discounted to calculate the current value. The actuarial gains and losses referring to the defined benefit plans accumulated up to the previous year and which reflect the effects deriving from changes in the actuarial assumptions used, are recognized in full in the comprehensive income statement.

The actuarial valuation of the liability was entrusted to an independent actuary.

The Group has no other defined benefit pension plans.

The obligation of the Group deriving from defined contribution plans is limited to the payment of contributions to the State or to a legally separate asset or entity (fund), and is determined on the basis of the contributions due.

n) Financial instruments

The final version of the new IFRS 9 Standard, divided into three pillars, determines the need to review the processes and criteria for the management of financial instruments in terms of "Classification and Measurement", "Impairment" and "Hedge Accounting".

Regarding Classification & Measurement, the Standard provides for new rules for the classification of financial assets in the following categories:

- Cost Amortized – "CA";
- Fair value with changes in equity (Fair Value Other Comprehensive Income) – "FVOCI";
- Fair value with changes in the income statement (Fair Value through Profit and Loss) – "FVTPL".

This classification is carried out according to two discriminating factors:

- The Business Model that the Company has associated with each of the portfolios identified and
- The characteristics of the contractual cash flows of the financial instrument (SPPI Test – Solely Payments of Principal and Interest).

Regarding Impairment, the main changes concern:

- The change in the scope of application of financial assets subject to the impairment process;
- The introduction of an impairment model based on expected losses (Expected Credit Loss) with the adoption of a Forward Looking approach;
- The classification of financial instruments in three stages of credit quality and the consequent need to adopt a specific Stage Assignment Framework;
- The calculation of value adjustments according to the stage of credit quality attributed.

In the case of financial assets not recognized in the income statement, the Group initially evaluates a financial asset at its fair value plus transaction costs.

Classification criteria in Stages ("stage assignment") - general approach

The "general" approach is based on the classification of financial assets in three stages of risk, which correspond to different methods of measuring value adjustments according to the univocal concept of

"Expected Loss", or also "Expected credit losses" (hereinafter ECL). For the purposes of staging, the Company has adopted the following model:

For trade receivables (receivables for commissions), the simplified approach will therefore record the expected losses on all trade receivables based on their residual contractual duration.

Cash and cash equivalents, such as current accounts held as assets valued at amortized cost, are also subject to the general impairment rule. However, in view of the fact that they are demand accounts, the expected losses over the 12 months and the expected losses of the useful life coincide.

For other receivables, the parameters for determining the significant increase in credit risk (SICR) have been defined, for the purpose of correctly allocating performing exposures to stage 1 or stage 2 ("tracking"). On the other hand, with reference to "impaired" exposures, account is taken of current logics of classification of exposures that are adequate with respect to the classification logics of exposures in stage 3.

With reference to the "tracking" of credit quality, a precise analysis was carried out of the credit quality of each individual relationship, for the purpose of identifying any "significant deterioration" of the same from the date of initial recognition and the consequent need for classification in stage 2, as well as a specular analysis, of the conditions for returning to stage 1 from stage 2. Specifically, in order to distinguish receivables that do not show signs of SICR (stage 1) from those that show such signals (Stage 2), the Group has chosen, in line with the requirements introduced by IFRS 9, to analyze the following relevant aspects:

- The change in the creditworthiness of the counterparty (assessed based on the outcome of the recovery and reminder actions);
- The expected life of the receivable;
- The "forward looking" information that can influence credit risk (i.e. the deviation of financial instruments as guarantee).

The Company's Stage Assignment Framework provides for the need to classify Performing financial instruments in 2 different stages, each representing increasing levels of risk:

- Stage 1 includes all receivables that have not undergone a "SICR" or, although they have recorded a change in credit risk over time, are characterized by a low level of credit risk at the reporting date;
- Stage 2 includes receivables that have recorded a "SICR" on the reporting date compared to the first recognition and this level of risk can no longer be considered low.

The classification of receivables in Stage 3, on the other hand, is envisaged for all relationships in default at the reporting date.

IFRS 9 requires the Group to recognize an allocation for expected credit losses (ECL) for all loans and other receivables that represent a financial asset that are not held at FVPL.

Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. For contractual activities, trade receivables and other receivables, the Group applied the standard simplified approach and calculated the ECL based on the expected credit losses over the life of the loans. The Group has defined an allocation based on the Group's historical experience with respect to losses on receivables, adjusted by taking into account specific forecast factors for creditors and the economic context.

The Standard provides for the classification and measurement of financial liabilities at amortized cost with the exception (IFRS 9 par. 4.2.1) of:

- Financial liabilities valued at the FVPL (including derivative financial instruments);
- Financial liabilities arising when the transfer of a financial asset does not meet the criteria for derecognition or when the approach of residual involvement is applied;
- Financial guarantees and commitments to provide loans;

- Potential amount recognized by the acquirer in a business combination to which IFRS 3 Business Combinations applies.

The Standard maintains the possibility of opting, at the time of initial and irrevocable entry, for fair value measurement with a balancing entry in the income statement (fair value option) when (IFRS 9 par. 4.2.2 and 4.3.5):

- The liability includes an embedded derivative;
- The designation allows the elimination or significant reduction of a valuation or recognition inconsistency (accounting mismatch);
- The liability is included in a group of liabilities managed at fair value based on a documented policy.

For financial liabilities designated at fair value, the Standard requires gains or losses to be recognized as follows:

- The changes in the fair value of financial liabilities that are attributable to changes in their credit risk are recognized in equity (without reversal to the income statement). In the event of repurchase, the reserve could be reclassified to an available equity reserve;
- The remaining change in fair value of liabilities is recognized in the income statement

In summary, the rules for the classification and measurement of financial liabilities envisaged by the Standard have not changed compared to the previous IAS 39 Financial instruments: recognition and measurement, except for the new accounting rules, or the recognition of cumulative fair value changes related to credit risk in OCI. Below is an example of IFRS 9 treatment regarding financial liabilities.

In consideration of the nature of the instruments as well as of the Company's business plan, the breakdown by technical form has been identified as the relevant level at which to conduct the analysis of the business model for the company. When the business model of an asset or a portfolio of assets is of the type hold to collect or both hold to collect and sell, the next step of the assessment consists in analyzing the contractual cash flows to verify that they represent only the repayment capital and interest (hereinafter SPPI).

An entity must always check the contractual cash flows when it becomes part of the contractual clauses of the instrument and, therefore, the retrospective application in accordance with IFRS 9 requires the asset to be analyzed on the basis of the evidence at the time of recognition in the financial statements. However, it is noted that an instrument that has been restructured or renegotiated so as not to lead to derecognition of the original asset and the recognition of the new asset, should not be the subject of a new SPPI Test.

o) Fair value measurement

The Group assesses financial instruments, such as derivatives and capital instruments, at fair value at each reporting date.

Fair value is the price that would be received for the sale of an asset, or that would be paid to transfer a liability in an arm's length transaction at the measurement date. A fair value measurement assumes that the sale transaction of the asset or transfer of the liability takes place:

- in the main market of the asset or liability;

or:

- in the absence of a main market, in the most advantageous market for the asset or liability.

The main market or the most advantageous market must be accessible to the Group.

The fair value of an asset or liability is valued by adopting the assumptions that market operators would use in the determination of price of the asset or liability, assuming that market operators act to best meet their own economic interest.

An assessment of the fair value of a non-financial asset does not consider the ability of a market operator to generate economic benefits by making utmost use of the asset or by selling it to another market operator that would make the utmost and best use of it.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which the fair value is measured or recorded in the financial statements are categorized according to the fair value hierarchy, as described below:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than the quoted prices included in Level 1, directly or indirectly observable for the asset or liability;
- Level 3 - valuation techniques for which the input data is not observable for the asset or liability.

The fair value is entirely classified in the same level of the fair value hierarchy in which the input of the lowest level of hierarchy used for the valuation is classified.

For assets and liabilities recognized in the financial statements at fair value on a recurring basis, the Group determines whether there have been transfers between the hierarchy levels re-evaluating the categorization (based on the lowest level input that is significant for the purposes of the fair value measurement in its entirety) at each reporting date.

The Group Financial Committee determines the criteria and procedures for both recurring fair value measurements, such as capital instruments, and for non-recurring measurements. The Group Financial Committee includes the financial managers of each structure and the financial manager of the Group.

External appraisers are involved in the valuation of significant assets, such as real estate property, and significant liabilities. This involvement is decided annually after discussion and with the approval of the Board of Statutory Auditors. Selection criteria include knowledge of the market, reputation, independence and compliance with professional standards. Following the discussion with external appraisers, the Group Financial Committee decides which evaluation techniques and which inputs to use for each case.

At each reporting date, the Group Financial Committee analyzes the changes in the values of assets and liabilities for which the revaluation or recalculation is required, based on the Group’s accounting standards.

For this analysis, the main inputs applied in the most recent assessments are verified by comparing information used in the assessment to contracts and other relevant documents.

The Group Financial Committee carries out, with the support of external appraiser, a comparison between each change in the fair value of each asset and liability and the relevant external sources, in order to determine whether the change is reasonable. The results of the evaluations are presented periodically to the Board of Statutory Auditors and to the Group’s auditors. This presentation includes a discussion of the main assumptions used in the evaluations.

For reporting purposes related to fair value, the Group determines classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as described above.

Summarized below are the notes relating to the fair value of financial instruments and non-financial assets measured at fair value, and those in which fair value disclosures are presented:

- Evaluation techniques, discretionary evaluations and significant accounting estimates Note 2;
- Quantitative information on the fair value measurement hierarchy Note 40;
- Financial instruments (including those valued at amortized cost) Note 21.

p) Recognition of revenue from sales and services

With Regulation no. 2016/1905 issued by the European Commission on September 22, 2016, IFRS 15 “Revenue from contracts with customers” (hereinafter IFRS 15) was approved, which defines the criteria for recognition and measurement of revenue deriving from contracts with customers. The standard will replace all current requirements in the IFRS regarding revenue recognition and envisages a new five-phase model that will apply to revenue from contracts with customers. In general, IFRS 15 requires the recognition of revenue for an amount that reflects the amount to which the entity believes to be entitled in exchange for the transfer of goods or services to the customer. In particular, IFRS 15 requires the recognition of revenue to be based on the following 5 steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations (i.e. the contractual promises to transfer goods and/or services to a customer); (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified based on the stand-alone sale price of each good or service; and (v) recognition of the revenue when the related performance obligation has been fulfilled. Furthermore, IFRS 15 complements the disclosures to be provided with reference to the nature, amount, timing and uncertainty of resulting revenue and related cash flows. The provisions of IFRS 15 are effective for years beginning on or after January 1st, 2018; earlier application is permitted.

The Group operates in the accredited private healthcare sector and its activity takes the form of services in acute areas, outpatient services, long hospitalization and rehabilitation, and accounts for its revenue for these services as follows:

- Services in acute areas: The Group accounts for revenue for these services when the control of the asset has been transferred to the customer, coinciding with the moment in which the health intervention is performed;
- Outpatient services: The Group accounts for revenue for these services when the control of the asset has been transferred to the customer, coinciding with the moment in which the health intervention is performed;
- Long hospitalization and rehabilitation: The Group accounts for revenue for these services when the control of the asset has been transferred to the customer, coinciding with the moment in which the health intervention is performed. In the case of long hospitalization, a daily allowance is provided, making the payment directly commensurate with the number of hospital days.

It is clarified that with reference to the above services provided under the agreement, revenue is recognized in the maximum limit of the regional annual cost cap assigned to the Company if present, while with reference to revenue from private and/or insured customers, is recorded in relation to the service actually provided.

q) Recognition of costs

Costs are recognized upon acquisition of the good or service.

r) Financial income and expenses

Financial income and expenses are recognized on an accrual basis on the basis of interest accrued on the net value of the related financial assets and liabilities, using the effective interest rate.

s) Income taxes

Current taxes

Current taxes reflect an estimate of the tax burden, determined by applying the legislation in effect in the countries in which the Garofalo Health Care Group operates. Current tax liabilities are calculated using the rates in effect or substantially approved on the closing date of the financial year.

The payable for current taxes is classified in the balance sheet, net of any tax advances paid.

Deferred taxes

Deferred taxes are calculated on deductible (deferred tax assets) and taxable (deferred tax liabilities) temporary differences resulting at the reporting date between the tax values taken as reference for assets and liabilities and the values in the financial statements.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax losses and unused tax credits can be utilised.

The value to be recognized in the financial statements of deferred tax assets is reviewed on each reporting date and reduced to the extent that it is no longer likely that sufficient tax profits will be available in the future in order to allow all or part of this receivable to be used.

Unrecognized deferred tax assets are reviewed annually at the reporting date and are recognized to the extent that it has become likely that future taxable income will be sufficient for their recovery.

Deferred tax assets and liabilities are measured using the tax rates that are expected to be applied in the years in which the assets are realized or the liabilities are settled, considering the rates currently in effect and those already issued, or substantially issued, at the reporting date.

Deferred taxes and liabilities are recognized directly in the Income Statement, with the exception of those relating to items recognized directly in equity; in this case, the related deferred taxes are recorded consistently without recognition in the income statement.

Deferred tax assets and liabilities are offset if there is a legal right to compensate current tax assets with current tax liabilities and the deferred taxes refer to the same legal entity and the same tax authority.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Indirect taxes

Costs, revenue, assets and liabilities are recognized net of indirect taxes, such as value added tax, with the following exceptions:

- the tax applied to the purchase of goods or services is non-deductible; in this case, it is recognized as part of the purchase cost of the asset or part of the cost recognized in the income statement;

- trade receivables and payables include the indirect tax applicable.

The net amount of indirect taxes to be recovered or paid to the tax authorities is included in the financial statements as receivables or payables.

t) Basic and diluted earnings per share

The accounting standard IAS 33 - Earnings per Share regulates the calculation and disclosure to be provided to users of the financial statements in terms of basic and diluted earnings per share. The classes of financial instruments identified by the standard that must be considered for the calculation of the aforementioned indicators are options, warrants, instruments convertible into shares (ex. convertible bonds) and similar.

Basic earnings per share are calculated on the basis of the profit for the period divided by the weighted average number of ordinary shares during the year.

Diluted earnings per share are calculated on the basis of the diluted earnings for the period attributable to the shareholders of the Parent Company, divided by the weighted average number of ordinary shares outstanding, modified by the number of potentially dilutive ordinary shares.

The Company does not present potentially dilutive financial instruments and therefore the two indicators coincide.

u) Segment reporting

The identification of the operating sector in which the Company operates is carried out on the basis of the accounting standard IFRS 8 - Operating Segments. On December 12, 2012, the IASB issued a set of amendments that have made changes to the aforementioned standard requiring that information be provided on the assessments made by the company management in the aggregation of the operating segments describing the segments that have been aggregated and the economic indicators that have been evaluated to determine that the aggregated segments have similar economic characteristics.

The GHC Group is one of the main operators in the private healthcare sector accredited in Italy in terms of turnover, operates through twenty-one healthcare facilities located in six Italian regions, and offers a wide range of services covering all sectors of health, which includes and is divided into the hospital and social-care sectors, thanks to the diversification of the specialities provided, the use of cutting-edge technology and highly qualified personnel.

In particular, the Group operates in six regions of North and Central Italy, where it is present through a single business unit in the:

- *Hospital sector*, through acute admissions, long hospitalization, post-acute rehabilitations and outpatient services (the “Hospital Sector”);

- *Social-care sector*, through residential admissions (the “Social-Care Sector”).

The GHC Group facilities are located in the following Italian regions: Piedmont (2), Veneto (4), Emilia Romagna (2), Liguria (11, of which 4 held by “Il Fiocco”, an associate company of Fides Medica S.r.l., valued with the Equity Method), Tuscany (1) and Lazio (1).

The *Hospital Sector* is in turn divided into three sub-sectors: (i) acute admissions, (ii) post-acute and (iii) outpatient services.

The *Social-Care Sector*, represented by all the activities and services also specialized in the treatment of complex physical, neurological and sensory pathologies, offers, in a residential scheme, assistance to the elderly and treatment of specific pathologies including (i) severe disabilities, (ii) treatment for patients with LIS (Locked-in-Syndrome) or with amyotrophic lateral sclerosis in the terminal phase (Departments N.A.C. - High Chronic Neurological Complexity Nucleus), (iii) complex disabilities, mainly motor or clinical assistance and functional (Healthcare Assistance Continuity), (iv) patients with disability from severe cerebral acquired lesion (Departments “SVP” - Persistent Vegetative Coma States) and (v) psychiatric disorders and disorders related to the use of psychoactive substances.

From the point of view of the Group’s management organization, the activity carried out was grouped into a single Strategic Business Unit (hereinafter “SBU”), which includes the entire business. This approach stems from the fact that the only activity carried out consists of operating in the accredited private health sector, through various services offered but that are managed jointly by management.

The Group’s management observes together the results achieved by the single legal entities belonging to the Group, as well as the results of the two sectors identified within the single SBU, in order to make uniform decisions regarding the allocation of resources and the verification of the performance for the entire SBU.

v) Listing costs

As part of the listing project, the Company and/or the selling shareholders support specific costs, such as (i) the fees that are recognized to the banks coordinating the offer, (ii) the fees that are paid to consultants, specialists and lawyers; (iii) other costs such as, for example, communication costs, printing costs of information prospectuses and out-of-pocket expenses. At June 30, 2018, the costs amounted to Euro 897 thousands and were capitalized as Other receivables and current assets.

1.6 Discretionary evaluations and significant accounting estimates

The preparation of the Financial Statements requires Directors to apply accounting standards and methodologies which, under certain circumstances, are based on assessments that require a high degree of subjectivity, on estimates based on historical experience and assumptions that are considered from time to time with reference to their reasonableness depending on the circumstances. The application of these estimates and assumptions affects the determination of the amounts shown in the financial statements, such as those shown in the balance sheet, in the income statement and in the cash flow statement, as well as the information provided. Estimates and assumptions are periodically reviewed and the effect of a change in an accounting estimate is immediately recognized through the income statement. The main processes of estimation and discretionary valuation are related to the recognition and evaluation of the financial statement items indicated below.

Period of depreciation of tangible assets and amortization of intangible assets and impairment test

Depreciation and amortization of assets with definite useful life of tangible assets and intangible assets and the forecast data used for the purposes of impairment tests require a discretionary valuation by the directors, which is revised at each reporting date in order to verify that the amounts recorded are representative of the best estimate of costs that may be incurred by the Group and, if significant changes are detected, the amounts are reviewed and updated.

With regard to the impairment test, reference should be made to the paragraph “Impairment of assets” below in these notes to the financial statements.

Legal proceedings

The Company is a party to various legal proceedings concerning claims for damages related to operations, tax, labour law or other contractual relations. These disputes are subject to many uncertainties, and the outcome of the individual positions is not predictable with certainty. Moreover, they often derive from complex legal problems subject to different degrees of uncertainty.

A provision is made in relation to a dispute or threat if the loss is probable and there will be an outflow of funds and when the amount can be reasonably estimated. If an outflow of funds becomes probable, but the amount cannot be estimated, this fact is reported in the notes.

Since these provisions are estimates, the resolution of some of these positions may require the Company to make payments in excess of the amounts provisioned or may require the Company to make payments in an amount that could not reasonably be estimated. The Company monitors the status of legal proceedings and regularly consults with legal and tax experts. Therefore, provisions for legal proceedings of the Company may change as a result of future developments on these matters.

Business Combinations

Accounting for business combinations entails allocating the difference between purchase cost and net carrying amount to the assets and liabilities of the acquired business. For the majority of assets and liabilities this difference is allocated by recognizing the assets and liabilities at fair value. If positive, the unallocated portion is recognized as goodwill. If negative, it is recognized in the income statement. The Group bases its allocations on available information and, for the more significant business combinations, on external appraisals.

Deferred tax assets

Deferred tax assets are recognized with respect to deductible temporary differences between the values of assets and liabilities expressed in the financial statements compared to the corresponding tax value and tax losses that can be carried forward, to the extent that the existence of adequate future taxable profit is likely, with respect to which these losses may be used. A discretionary assessment is required of the directors to determine the amount of deferred tax assets that can be accounted for, which depends on the estimate of probable timing and the amount of future taxable profits.

Liabilities for employee benefits (employee severance indemnity - “TFR”) and provisions to the supplementary indemnity provision

The evaluation of the severance indemnity is carried out using actuarial valuations. The actuarial valuation requires the development of assumptions about discount rates, future salary increases, turnover and mortality rates. Due to the long-term nature of these plans, these estimates are subject to uncertainty.

Value adjustments on receivables

Value adjustments on receivables represent the best possible estimate made by management, based on the information held at the date of preparation of the financial statements.

The estimates and assumptions are made by the directors with the support of the company departments and, when appropriate, of independent specialists and are reviewed periodically.

1.7 Accounting standards issued but not yet in force

The accounting standards, amendments and interpretations not adopted in advance for the six months ended June 30, 2018 governed facts and cases that do not have significant effects on the Company's balance sheet, income statement, cash flow statement and the information contained in the financial statements.

The Company is assessing the impact of the modifications, amendments and interpretations to the approved accounting standards not adopted early or in the process of being approved.

Set out below are the standards and interpretations which, at the date of preparation of the financial statements of the Company, had already been issued and not adopted in advance:

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 - Leases, IFRIC 4 - Determining whether an agreement contains a lease, SIC-15 - Operating leases - Incentives and SIC-27 - Evaluating the substance of transactions in the legal form of a lease. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all lease contracts in the financial statements on the basis of a single model similar to that used to account for financial leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by lessees - lease contracts relating to "low value" activities (for example personal computers) and short-term lease contracts (for example contracts expiring within 12 months or less). At the start of the lease contract, lessees will recognize a liability for lease payments (i.e. lease liabilities) and an asset that represents the right to use the underlying asset for the duration of the contract (i.e. right to use the asset). Lessees will have to separately account for the interest expenses on the lease liability and amortization of the right to use the asset.

Lessees will also have to remeasure the lease liability upon the occurrence of certain events (for example: a change in the conditions of the lease contract, a change in future lease payments resulting from the change of an index or rate used to determine said payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as a correction of the right to use the asset.

The accounting required by IFRS 16 for lessors is substantially unchanged compared to today's accounting in accordance with IAS 17. Lessors will continue to classify all leases using the same classification principle envisaged by IAS 17 and distinguishing between two types of leases: operating leases and financial leases.

IFRS 16 requires less extensive disclosures from lessees and lessors compared to IAS 17.

IFRS 16 shall be in effect for years beginning on or after January 1st, 2019. Early application is permitted, however not before the entity has adopted IFRS 15. A lessee may choose to apply the standard using a fully retrospective approach or a modified retrospective approach. The transitional provisions provided for by the standard allow certain facilitations.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, when defining the spot exchange rate to be used for the initial recognition of the related asset, costs or revenue (or part of these) at the time of derecognition of a non-monetary asset or a non-monetary liability relating to advances on fees, the transaction date is the date on which the entity initially recognizes the non-monetary asset or the non-monetary liability relating to advances on fees. In the case of multiple payments or advances, the entity must define the transaction date for each payment or advance on fees. This interpretation does not have any impact on the Group's interim consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer a property, including properties under construction or development as or not as Investments properties. The amendment establishes that a change in use occurs when the property satisfies, or ceases to satisfy, the definition of real estate and there is evidence of the change in use. A simple change in management intentions related to the use of the property does not provide evidence of change in use. These amendments do not have any impact on the Group’s interim consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group’s accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group’s consolidated financial statements.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group’s interim consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

The short-term exemptions set forth in paragraphs E3-E7 of IFRS 1 were cancelled as they have fulfilled their purpose. These amendments do not have any impact on the Group's interim consolidated financial statements.

1.9 Seasonality

Although some services are not provided in the course of the summer period, management has concluded that the Group's performance is not significantly influenced by seasonal factors.

Note 2 Goodwill

The breakdown of Goodwill is as follows:

In Euro thousands	At June 30,	At December 31,
	2018	**2017**
Goodwill – CGU Rugani Hospital S.r.l.	6,936	6,936
Goodwill – CGU CMSR Veneto Medica S.r.l.	11,230	11,230
Goodwill – CGU Villa Von Siebenthal S.r.l.	2,957	2,957
Goodwill – CGU Gruppo Fides Medica	17,646	17,646
Goodwill – CGU Casa di Cura Prof. Nobili S.p.A.	46	46
Total goodwill	**38,815**	**38,815**

Goodwill consists of the difference between the fair value of the amount transferred and the net value of the amounts at the acquisition date of the identifiable assets acquired and of the liabilities assumed identifiable at fair value.

Verification of impairment of goodwill and intangible assets with indefinite useful life (impairment test)

Goodwill and accreditation acquired through business combinations were allocated for the purpose of verifying the impairment loss of the cash-generating units identified for the Group at the level of the individual entity, without prejudice to the recently-acquired Fides Medica Group identified as a single CGU.

Although the Group did not identify impairment test indicators, it carried out an impairment test in June 2018.

Evaluation system

The estimate of the value in use is made by discounting the operating cash flows, i.e. the cash flows available before the repayment of financial payables and the remuneration of the shareholders (Unlevered Discounted Cash Flow or UDCF). Operating cash flows are discounted at a rate equal to the weighted average cost of debt and equity (Weighted Average Cost of Capital or WACC), in order to obtain the value of the company's operating capital (Enterprise Value).

The prospective cash flows used in the impairment test are developed for a time period of 4 years with a terminal value forecast, and derive from the 2018-2021 Business Plan approved by the Board of Directors on June 27, 2018 and are developed by referring to the EBITDA expected net of taxes and less the notional contribution of fixed assets and working capital. The assumptions are consistent with the past actual results and the historical trend of the reference market. The growth rate *g* is 0.

The discounting rate of cash flows (WACC) used for the impairment tests is equal to 6.07% at June 30, 2018, and presents the following main parameters:

- *Risk free rate*: the rate used is 2.07% for HY1 2018; this value corresponds to the yield on Italian ten-year government securities measured as a monthly average over the last twelve months (Source: S&P Capital IQ);

- *Beta*: for the estimation of the non-differentiable systemic risk coefficient, reference was made to the inputs elaborated by international practice (Source: S&P Capital IQ), taking into consideration a group of listed companies operating in the same sector of the company to be valued, thus calculating an appropriate industry average beta, equal to 0.55% at June 30, 2018;

- *Market premium*: for the purposes of the analysis, a rate of 6.0% was used for all three years. This parameter is in line both with the results of long-term analyses and with professional practice;

- *Premium for additional risk:* prudentially, an increase in the cost of risk capital equal to 1.0% was applied at June 30, 2018 for the CGUs to take into account the reduced size compared to the companies used as comparable;

- With reference to the *cost of the debt (Kd)* for the CGUs that present outstanding loans, reference was made to the effective interest rate applied by the banking system on the same Eurirs 10-year loans, average 12 months (Source: S&P Capital IQ) with a spread of 3 points;

- *Financial structure:* consistently with as was done for the purposes of the calculation of the beta, we applied to the cost of risk capital and the cost of debt capital, weights determined using a market D/E representative of the average financial structure of the sample of comparable listed companies previously identified, equal to 0.6 at June 30, 2018. We and wd weights stood at 62.9% and 37.1% for HY1 2018.

CGU Rugani Hospital S.r.l.

The recoverable value of the cash-generating unit Rugani Hospital S.r.l., healthcare facility operating in Siena, was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of four years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU CMSR Veneto Medica S.r.l.

The recoverable value of the cash-generating unit CMSR Veneto Medica S.r.l. clinic operating in Vicenza, was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of four years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU Villa Von Siebenthal S.r.l.

The recoverable value of the cash-generating unit Villa Von Siebenthal S.r.l., social-care healthcare facility operating in Genzano Romano, was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of four years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU Fides Medica Group

The recoverable value of the cash-generating unit of the Fides Medica Group was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of four years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

CGU Casa di Cura Prof. Nobili S.p.A.

The recoverable value of the cash-generating unit of the Fides Medica Group was determined on the basis of the calculation of the value in use, in which the cash flow projections deriving from the related financial budgets were used for a period of four years, approved by management. As a result of the updated analyses, the management did not identify an impairment of this cash-generating unit.

Sensitivity to changes in assumptions

The Group prepared sensitivity analyzes on the results of the test with respect to changes in the basic assumptions that affect the value in use of the CGUs, thus assuming a change in the WACC of +/-1 and/or a change in projected EBITDA. The aforementioned increase in WACC and decrease in projected EBITDA result in impairment losses for the CGUs Villa Von Siebenthal and Fides Medica Group.

Below we show the balance wacc for each CGU, with reference to HY1 2018:

%	WACC e	
	At June 30,	**At December 31,**
	2018	**2017**
Goodwill – CGU Rugani Hospital S.r.l.	13.9%	13.6%
Goodwill – CGU CMSR Veneto Medica S.r.l.	9.7%	9.7%
Goodwill – CGU Villa Von Siebenthal S.r.l.	6.8%	6.7%
Goodwill – CGU Gruppo Fides Medica	6.7%	6.6%
Goodwill – CGU Casa di Cura Prof. Nobili S.p.A.	21.3%	20.2%

Note 3 Other intangible assets

The breakdown of Other intangible assets at June 30, 2018, compared with the same values at December 31, 2017, is as follows:

In Euro thousands	At June 30,	At December 31,	Change
	2018	**2017**	**2018 vs 2017**
Concessions, licenses, trademarks and similar rights	3	4	(1)
Accreditation	13,528	13,528	-
Software	622	712	(90)
Other intangible assets	21	32	(11)
Total other intangible assets	**14,174**	**14,276**	**(102)**

The table below shows the changes in the individual items of Intangible assets for the period ended June 30, 2018:

In Euro thousands	Concessions, licenses, trademarks and similar rights	Software	Accreditation	Other intangible assets	Assets in progress and advances	Total
Net value at December 31, 2017	**4**	**712**	**13,528**	**32**	**–**	**14,276**
Increases in the period	-	58	-	-	-	58
Net decreases	-	-	-	-	-	-
Amortization	(1)	(148)	-	(11)	-	(160)
Net value at June 30, 2018	**3**	**622**	**13,528**	**21**	**-**	**14,174**

Concessions, licenses, trademarks and similar rights

The item Concessions, licenses, trademarks and similar rights amounted to Euro 3 thousand at June 30, 2018 and shows a change of Euro 1 thousand compared to December 31, 2017 related to the amortization for the period.

Software

The item Software refers to the applications used by the administrations and for the healthcare activities of the Group companies.

In HY1 2018, the Group made investments in Software for Euro 58 thousand, mainly attributable to the company Hesperia Hospital S.p.A. Amortization for the period amounted to Euro 148 thousand.

Accreditation

The item Accreditation mainly includes the surplus deriving from the acquisition of the Fides Medica Group and Casa di Cura Prof. Nobili S.p.A. The surplus of purchase costs on the fair value of the portion attributable to the Group is identifiable as Euro 8,257 thousand for the net assets attributable to the accreditation of the Fides Medica Group at the acquisition date and for the amount of Euro 4,942 thousand to the accreditation Casa di Cura Prof. Nobili S.p.A.

Institutional accreditation is the process by which the authorized public and private structures acquire the qualification of a subject suitable for the provision of health and social health services on behalf of the Regional Health Service (SSR). The institutional accreditation is issued by the Region and is subject to the possession of the additional accreditation requirements defined by national and regional provisions, as well as the adoption of systems for continuous improvement of the quality of the services provided and monitoring of quality, the activity carried out and results achieved. This category of asset presents the conditions for being considered with indefinite useful life, and therefore this value is subject to an impairment test at least once a year and recorded at cost, net of losses deriving from impairment.

The fair value of the accreditation was estimated upon recognition by applying a technique based on the discounting of results deriving from services as affiliation (multi-period excess earnings technique).

The fair value measurement is based on significant inputs that are not observable on the market. The fair value estimate is based on the following assumptions:

- The prospective cash flows, developed for a time period of 4 years with a terminal value forecast, derive from the 2018-2021 Business Plan and are developed taking as reference the expected EBITDA for the only part agreed, net of the imputed taxes and deducted the figurative contribution of fixed assets and working capital;

- These assumptions are consistent with the projections of incoming and outgoing cash flows, taking into account the past actual results and the historical trend of the reference market;

- The base rate used is 6%, increased by 2 percentage points to take into account the fact that single intangible assets are being evaluated and not the entire company complex;

- The growth rate g is 0;

- The terminal value is determined starting from the EBITDA of the last year of the plan, prudentially reduced by 50%.

In relation to the impairment tests, they were carried out jointly with the tests on the goodwill of the respective companies (as the accreditations were allocated to the CGUs represented by the respective clinics). Sensitivity analyzes were also performed, simulating a WACC variation of +/-1% and/or a change in projected EBITDA. The aforementioned increase in WACC and decrease in projected EBITDA result in impairment losses for the CGUs Villa Von Siebenthal and Fides Medica Group.

Other intangible assets

The item includes residual categories of assets, which, given their scarce significance, are not in a specific item. The balance at June 30, 2018 was Euro 21 thousand; the change in the HY is related to amortization of the period.

Note 4 Property, plant and equipment

The table below shows the breakdown of Property, plant and equipment at June 30, 2018 compared with December 31, 2017.

In Euro thousands	At June 30,	At December 31,	Change
	2018	**2017**	**2018 vs 2017**
Land and buildings	77,047	78,536	(1,489)

Leasehold improvements	1,379	1,403	(24)
Plants and machinery	2,244	2,430	(186)
Industrial and commercial equipment	6,478	6,601	(123)
Other assets	936	939	(3)
Assets in progress and advances	78	41	37
Total	**88,162**	**89,950**	**(1,788)**

The following tables show the changes in the item for the period ended June 30, 2018:

In Euro thousands	Land and buildings	Leasehold improvements	Plants and machinery	Industrial and commercial equipment	Other assets	Assets in progress and advances	Total
Net value at December 31, 2017	**78,536**	**1,403**	**2,430**	**6,601**	**939**	**41**	**89,950**
Increases in the period	53	35	28	677	187	75	1,055
Net decreases	-	-	-	-	-	-	-
Value adjustments	-	-	-	-	-	-	-
Reclassifications for transfers	5	-	33	-	-	(38)	-
Depreciation	(1,547)	(59)	(247)	(800)	(190)	-	(2,843)
Net value at June 30, 2018	**77,047**	**1,379**	**2,244**	**6,478**	**936**	**78**	**88,162**

Land and buildings

The item mainly includes the properties owned by the nursing homes and amounted to Euro 77,047 thousand at June 30, 2018 compared to Euro 78,536 in 2017.

The item decreased by Euro 1,489 thousand in the first half of 2018 compared to December 31, 2017. The decrease is mainly due to depreciation for the period, which amounted to Euro 1,547 thousand.

Investments made by the Group in HY1 2018 amounted to Euro 53 thousand, mainly attributable to Hesperia Hospital Modena S.p.A. for Euro 11 thousand and L'Eremo di Miazzina for Euro 34 thousand.

Leasehold improvements

The item decreased in HY1 2018 by Euro 24 thousand compared to December 31, 2017. The decrease is mainly due to depreciation for the period, which amounted to Euro 59 thousand. In HY1 2018, the Group made investments in additional improvements for Euro 35 thousand, mainly related to the Fides Group.

Plants and machinery

The item decreased in HY1 2018 by Euro 186 thousand compared to December 31, 2017. The decrease is mainly due to depreciation for the period, which amounted to Euro 247 thousand.

Industrial and commercial equipment

At June 30, 2018, Industrial and commercial equipment amounted to Euro 6,478 thousand, compared to a value of Euro 6,601 thousand at December 31, 2017.

In HY1 2018, investments totalling Euro 677 thousand were made in relation to the purchase of specific healthcare equipment used for medical services provided mainly by: Casa di Cura Villa Berica S.p.A. for Euro 202 thousand, Hesperia Hospital Modena S.p.A. for Euro 253 thousand, Casa di Cura Villa Garda S.p.A. for Euro 59 thousand, Rugani Hospital S.r.l. for Euro 47 thousand. Depreciation for the period amounted to Euro 800 thousand.

The Group also recorded the lease according to the financial method, in accordance with international accounting standard IAS 17 and the net value at June 30, 2018 amounted to Euro 1,3 million, in which the change compared to the previous year is due to the decrease of the depreciation. In HY1 2018, no new financial lease contracts were stipulated, and there are no restrictions imposed by the aforementioned contracts, such as those concerning dividends, new indebtedness and other lease transactions.

Other assets

Other assets mainly consist of cars, transport vehicles, electronic machines, furniture and furnishings. At June 30, 2018, this item amounted to Euro 936 thousand and is almost in line with the values for 2017. In HY1 2018, investments were made for a total of Euro 187 thousand mainly related to: (i) for Euro 64 thousand to the company Rugani Hospital S.r.l., relating to furniture and furnishings purchased in relation to the entry into operation of 40 new beds and the purchase of vehicles; (ii) for Euro 14 thousand to the company Hesperia Hospital Modena S.p.A. relating to furniture and furnishings; (iii) for Euro 13 thousand to the company Casa di Cura Villa Garda S.p.A. The change in the item is also related to the depreciation of the HY equal to Euro 190 thousand.

Assets in progress and advances

At June 30, 2018, the item amounted to Euro 78 thousand, compared with a value of the previous year, of Euro 41 thousand. In HY1 2018, the Group made investments for Euro 75 thousand, entirely attributable to the company Casa di Cura Villa Berica S.p.A. In the HY, the Group reclassified Euro 38 thousand from the item Assets in progress and advances, for Euro 33 thousand into Plants and machinery and Euro 5 thousand into Land and buildings, mainly attributable to the company Casa di Cura Villa Berica S.p.A.

Note 5 Investments properties

The table below shows the breakdown of property investments at June 30, 2018.

In Euro thousands	At June 30,	At December 31,	Change
	2018	**2017**	**2018 vs 2017**
Investments properties	1,045	1,063	(18)
Total Investment properties	**1,045**	**1,063**	**(18)**

The Group's property investments mainly refer to the apartments owned by L'Eremo di Miazzina S.p.A., for an amount of Euro 832 thousand; Hesperia Hospital Modena S.p.A., for an amount of Euro 45 thousand and FI.D.ES. Medica S.r.l., for Euro 168 thousand. These are properties that are non-industrial and non-instrumental for the Group's core business and are held with the specific purpose of investment. For these reasons, in accordance with IAS 40, these real estate properties have been classified as an investment and valued by applying the cost model. The value recorded is represented by the historical cost minus the accumulated depreciation rates. The change in the period is exclusively related to the depreciation of the HY for a total amount of Euro 18 thousand.

The useful life of the Group's property investments is 33 years; depreciation is at constant rates.

Assets are not leased; therefore, there are no revenue for rents, nor direct operating costs.

There are no restrictions on the possibility of realization by the Group of property investments or contractual obligations to purchase, build or develop property investments, nor to carry out maintenance, repairs or improvements.

Please refer to the information on the fair value hierarchy for property investments in Note 41. In this regard, it is clarified as follows:

- the level of the fair value hierarchy of the valuation appears to be Level 3, i.e. inputs that are not observable, obtained with an estimate of the market value taking into account the average value of the values indicated by the Revenue Agency Database O.M.I. and the Borsino Immobiliare database (2018) for properties similar to those estimated;
- it is noted that the fair value as described above obtained is greater than the current value in use approximated to the net book value of the aforementioned item.

Note 6 Equity investments

The value of equity investments amounted to Euro 924 thousand at June 30, 2018 and refers to investments in associated companies for Euro 893 thousand and to capital instruments for Euro 31 thousand.

Equity investments in associates

The table below shows the details of investments in associates for HY1 2018 and for the year ended December 31, 2017.

In Euro thousands	At June 30,	At December 31,	Change
	2018	**2017**	**2018 vs 2017**
Il Fiocco S.c.a.r.l.	893	739	154
Total investments in associates	**893**	**739**	**154**

Investments in associated companies refer entirely to the company Il Fiocco S.c.a.r.l., in which the Group holds a 40% shareholding due to the acquisition of the Fides Group in 2017.

Below are the main economic-financial figures of the associate for HY1 2018:

In Euro thousands	**At June 30,**
	2018
Current assets	2,477
Non-current assets	491
Current liabilities	(1,399)
Non-current liabilities	(601)
Shareholders' equity	**968**
portion pertaining to the Group - 40%	387
Goodwill	**506**
Carrying value of the Group investment	**893**

In Euro thousands	**For the six month period ended June30**
	2018
Revenue	2,972
Cost of goods sold	(2,367)
Depreciation, amortization and write-downs	(51)
Financial expenses	(3)
Pre-tax profit	552
Taxes	(167)
Net profit of the year (from operating activities)	**385**
Other items of the Comprehensive Income Statement that will be subsequently reclassified in the profit/(loss) of the period net of taxes	**-**
Total Comprehensive Income Statement (from operating activities)	**385**
Group net profit for the period	**154**

The associate has no contingent liabilities or commitments at June 30, 2018.

Capital instruments

The following is the breakdown of capital instruments:

In Euro thousands	At June 30, 2018	At December 31, 2017	Change 2018 vs 2017
Banca Valpolicella Benaco Coop.	5	5	-
C.O.P.A.G. S.p.A.	1	1	-
Iatli S.p.A.	-	-	-
CAAF Emilia Centrale	3	3	-
Sada S.r.l.	-	-	-
Poliambulatorio Exacta S.r.l.	11	11	-
Ottica Modenese	11	11	-
SI4Life SCARL	-	17	(17)
Other Consortia	-	1	(1)
Total capital instruments	**31**	**49**	**(18)**

The balance of the item consists of the capital instruments in which the companies Hesperia Hospital Modena S.p.A., Casa di Cura Villa Garda S.p.A. and FI.D.ES. Medica S.r.l. do not exercise dominant or significant influence, and in any case less than one-fifth of the share capital; it is noted that the purchase cost approximates the fair value as there is no active market for the above portions, and if the company hypothesizes to sell them, it plans to recover the full purchase price.

It is noted that (i) in relation to the investment in the Polyclinic Exacta S.r.l. whose gross recognition value is equal to Euro 63 thousand, the write-down already carried out in previous years was conservatively maintained for a total of Euro 52 thousand; (ii) the equity investments by F.I.D.E.S. Medica S.r.l. in the company SI4Life Scarl was written down in HY1 2018 for Euro 7 thousands and the loan granted to the subsidiary SI4Life S.c.a.r.l. has been collected for Euro 10 thousands

Note 7 Other non-current financial assets

Other non-current financial assets amount to Euro 50 thousand and mainly include guarantee deposits of Group companies provided to third parties.

The table below shows the details of other non-current financial assets for HY1 2018 and at December 31, 2017.

In Euro thousands	At June 30, 2018	At December 31, 2017	Change 2018 vs 2017
Security deposits	50	47	3

Financial receivables from others	-	9	(9)
Total other non-current financial assets	**50**	**56**	**(6)**

Note 8 Other non-current assets

Other non-current assets amount to Euro 1,006 thousand and include Euro 991 thousand for receivables beyond the year relating to the tax on the realignment between the book value and the tax value of the goodwill recorded following the reverse merger of Garofalo Veneta S.r.l. in CMSR Veneto Medica S.r.l., which occurred in 2014.

The table below shows the breakdown of other non-current assets for HY1 2018 and at December 31, 2017.

In Euro thousands	At June 30,	At December 31,	Change
	2018	**2017**	**2018 vs 2017**
Substitute redemption tax receivables	991	1,067	(76)
Receivables from others	15	17	(2)
Total other non-current assets	**1,006**	**1,084**	**(78)**

Note 9 Deferred tax assets and liabilities

Deferred tax assets and liabilities;

The breakdown of Deferred tax assets and liabilities at June 30, 2018, compared with the balance at December 31, 2017 is as follows:

	At June 30,	At December 31,
	2018	**2017**
	In Euro thousands	
Deferred tax assets:		
within 12 months		-
beyond 12 months	3,324	3,326
Total	**3,324**	**3,326**
Deferred tax liabilities:		
within 12 months		–

beyond 12 months	(8,096)	(7,642)
Total	**(8,096)**	**(7,642)**
Net balance	**(4,772)**	**(4,316)**

It is recalled that deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax losses and unused tax credits can be used.

The table below shows the total changes in deferred tax assets and liabilities for deferred taxes for HY1 2018 and for the year ended December 31, 2017.

In Euro thousands	At June 30,	At December 31,
	2018	**2017**
Net balance at the beginning of the year	**(4,316)**	**(190)**
Credit/(Debit) recorded in the Income Statement	(483)	(527)
Change Scope of consolidation	-	(3,587)
Credit/(Debit) recorded in equity	27	(12)
Net balance at the end of the period	**(4,772)**	**(4,316)**

Net deferred tax assets and liabilities at June 30, 2018 amounted to Euro 4,772 thousand.

The details of net deferred taxes at June 30, 2018 are shown in the following table:

	Balance Sheet		**Consolidated Comprehensive Income Statement**		**Consolidated Income Statement**	
DESCRIPTION *In Euro thousands*	**June 30, 2018**	**December 31, 2017**	**June 30, 2018**	**December 31, 2017**	**June 30, 2018**	**December 31, 2017**
Gross-up Accreditation and Industrial Building	- 4,739	- 4,767	-	-	28	59
Amortization goodwill	- 1,645	- 1,289	-	-	- 356	- 740
Provision for risks and charges	1,587	1,523	-	-	64	292
Tax losses	33	159	-	-	- 126	- 211
Provision for bad debts	117	109	-	-	8	60
Default interest not collected	- 68	- 68	-	-	-	-
Derivative instruments	7	7	-	-	-	- 2
Adjustments IAS40 Depreciation/Amortization	36	32	-	-	4	8
Adjustments IAS17 Financial leases	- 184	- 172	-	-	- 12	- 24
Adjustments IAS19 – TFR	182	113	27	- 12	42	- 11
Equity Method	- 44	- 8	-	-	- 36	- 8
Other Changes	- 54	45	-	-	- 99	50
Total	**- 4,772**	**- 4,316**	**27**	**- 12**	**- 483**	**- 527**

Deferred tax assets	3,324	3,326	-	-	- 2	- 55
Deferred tax liabilities	- 8,096	- 7,642	27	-	- 481	582
Net deferred tax assets/liabilities	**- 4,772**	**- 4,316**	**27**	-	**- 483**	**- 527**

Note 10 Inventories

The following table shows the details of inventories at June 30, 2018 compared to December 31, 2017.

In Euro thousands	At June 30,	At December 31,	Change
	2018	**2017**	**2018 vs 2017**
Raw and ancillary materials and consumables	2,162	2,352	(190)
Inventories	**2,162**	**2,352**	**(190)**

At June 30, 2018, inventories amounted to Euro 2,162 thousand, while at December 31, 2017, they amounted to Euro 2,352 thousand. This item, consisting exclusively of raw and ancillary materials and consumables, refers to the materials destined for the clinical-hospital activities of the Group companies.

Note 11 Trade receivables

Trade receivables are recorded in the financial statements at June 30, 2018 for Euro 42,147 thousand compared to a value of Euro 38,399 thousand at December 31, 2017. The breakdown is as follows:

In Euro thousands	**At June 30,**	**At December 31,**	**Change**
	2018	**2017**	**2018 vs 2017**
Receivables from private customers	6,767	6,079	688
Receivables from ASL/USL/USLL	27,396	32,131	(4,735)
Receivables for invoices to be issued and credit notes to be issued	10,457	2,765	7,692
Other receivables	580	292	288
Provision for bad debts	(3,053)	(2,868)	(185)
Trade receivables	**42,147**	**38,399**	**3,748**

Receivables from customers are entirely referred to services rendered in the national territory and, there are no receivables due after 12 months.

Below is the change in the provision for bad debts, presenting the change with the indication of provisions and uses:

In Euro thousands	December 31, 2017	Acc.	Recl.	Use.	June 30, 2018
Total provision for bad debts	**2,868**	**185**	**-**	**-**	**3,053**

The Provision for bad debts increased in the HY 2018 by Euro 185 thousand mainly attributable to Hesperia Hospital Modena S.p.A. (Euro 150 thousand).

With regard to the mechanisms for determining expected losses, IFRS 9 does not identify a specific approach for estimating expected losses; therefore, in consideration of the nature of the receivables, the Company has decided to apply a loss rate approach, which consists in determining loss percentages on a statistical basis determined according to the losses recorded respectively over the 12 months and the residual life of the receivables, and adjusting these historical trends to take into account current conditions and future expectations. Therefore, the Company divided its loan portfolio on the basis of homogeneous risk characteristics and then proceeded to determine for each portfolio, thus identified, a loss rate based on the historical default experience for each portfolio. The Company then updated the historical rates thus obtained to take into account current economic conditions as well as reasonable forecasts on future economic conditions.

Note 12 Tax receivables

The table below shows the breakdown of tax receivables at June 30, 2018, compared to the sane values at December 31, 2017:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Other receivables and current assets – tax receivables for IRES and IRAP requests	693	693	0
Tax receivables – advance IRES taxes	285	383	(98)
Tax receivables – advance IRAP taxes	89	25	64
Tax receivables – from tax consolidation	78	586	(508)
Tax receivables – other tax receivables	31	331	(300)
Total tax receivables	**1,176**	**2,018**	**(842)**

Tax receivables at June 30, 2018 amounted to Euro 1,176 thousand compared to a value of the previous year of Euro 2,018 thousand. At June 30, 2018, the item mainly consisted of receivables for taxes deriving from IRES and IRAP requests (Euro 693 thousand), IRES and IRAP tax advances (Euro 374 thousand). The change in the period compared to the financial year ended December 31, 2017 is negative and equal to Euro 842 thousand, mainly related: (i) to the decrease in receivables from tax consolidation for Euro 508 thousand; this change mainly refers to Garofalo Health Care S.p.A., Centro Medico Palladio S.r.l., L'Eremo di Miazzina S.p.A., (ii) to the decrease in other tax receivables for Euro 300 thousand mainly attributable to Hesperia Hospital Modena S.p.A., which at December 31, 2017 included the research and development tax credit.

Note 13 Other receivables and current assets

The value of Other receivables and current assets at June 30, 2018 amounted to Euro 2,837 thousand, compared to a value of Euro 1,503 thousand in the year ended December 31, 2017, recording an increase of Euro 1,334 thousand.
Below is the breakdown of the item:

In Euro thousands	**At June 30,**	**At December 31,**	**Change**
	2018	**2017**	**2018 vs 2017**
Other receivables and current assets - supplier advances	218	229	(11)
Other receivables and current assets - receivables from others	610	505	105
Other receivables and current assets - receivables from employees	-	5	-5
Other receivables and current assets - receivables from social security institutions	25	13	12
Other tax receivables	208	167	41
Other receivables and current assets - accrued and deferred assets (non-financial)	879	584	295
Suspended listing costs	897	-	897
Total other receivables and current assets	**2,837**	**1,503**	**1,334**

The breakdown of the item is mainly as follows: (i) supplier advances for Euro 218 thousand at June 30, 2018, related to Hesperia Hospital Modena S.p.A. for Euro 190 thousand; (ii) receivables from others for a total value of Euro 610 thousand at June 30, 2018, of which Euro 426 thousand attributable to Villa Von Siebenthal S.r.l. In consideration of the nature of the receivables, the Company has decided to apply a loss rate approach, which consists in determining loss percentages on a statistical basis determined according to the losses recorded respectively over the 12 months and the residual life of the receivables, and adjusting these historical trends to take into account current conditions and future expectations. As already anticipated, the impairment model introduced by accounting standard IFRS 9 is based on the concept of forward looking valuation (zero), i.e. on the notion of expected loss, whether it is calculated at 12 months (Stage 1) or until residual life of the instrument (Stage 2 and Stage 3), based on the concept of SICR with respect to the date of origin of the instrument. According to the calculation model of the Expected Loss, losses must be recorded on the basis of objective evidence of impairment already manifested at the reporting date, but also on the basis of the expectation of impairment losses not yet manifested at the reporting date; (iii) accrued and deferred assets related to non-financial assets for Euro 879 thousand at June 30, 2018, of which Euro 202 thousand related to C.M.S.R. Veneto Medica S.r.l., Euro 225 thousand to Hesperia Hospital Modena S.p.A., Euro 155 thousand Casa di Cura Prof. Nobili S.p.A.; (iv) other tax receivables for Euro 208 thousand; (v) suspended listing costs for Euro 897 thousand.

Note 14 Other current financial assets

The value of Other current financial assets amounted to Euro 25 thousand at June 30, 2018. The balance of the item is attributable for Euro 22 thousand to the parent company GHC and mainly consists of financial accrued and deferred assets.

Note 15 Cash and cash equivalents

Below is the breakdown of the item:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Bank accounts	29,183	22,544	6,638
Cheques and cash	155	91	64
Total cash and cash equivalents	**29,338**	**22,635**	**6,703**

The values shown can be converted into cash promptly and are subject to a non-significant risk of change in value.

The GHC Group believes that the credit risk associated with cash and cash equivalents is limited because it mainly consists of deposits split over national banking institutions.

The aforementioned item is also subject to the general rule of impairment, and the loss rate approach was used. However, in view of the fact that they are demand accounts, the expected losses over the 12 months and the expected losses of the useful life coincide.

Reference is made to Note 19 Financial payables - Cash flow statement that are not current with reference to the composition of the net financial position June 30, 2018 and December 31, 2017.

Note 16 Equity

Share capital

At June 30, 2018, the share capital amounted to Euro 300 thousand, fully paid-in, and consists of 300,000 shares with nominal value of Euro 1 each. The Company's share capital remained unchanged in the HY. The consolidation of the Companies subject to reorganization for periods prior to the date of their transfer to the Company following the Reorganization was reflected in equity reserves.

The following table shows the number of shares and the relative percentage of the share capital held by the shareholders of the Company at the date of June 30, 2018.

Shareholder	**Number of shares**	**Share capital**
Larama 98 S.p.A.	227,586	75.86%
Maria Laura Garofalo	53,290	17.76%
An.rama S.p.A.	9,397	3.14%
GBL Fiduciaria S.p.A.	9,659	3.22%
Claudia Garofalo	68	0.02%
Total	**300,000**	**100.00%**

Legal reserve

At December 31, 2017, the legal reserve amounted to Euro 40 thousand; in HY1 2018, following the allocation of the result of 2017 approved by the Shareholder's meeting, this reserve increased by Euro 20 thousand. The balance of the legal reserve at June 30, 2018 amounted to Euro 60 thousand.

Other reserves

Below is a breakdown of Other reserves at June 30, 2018, compared to the values of the item at December 31, 2017:

In Euro thousands	At June 30, 2018	At December 31, 2017	Change 2018 vs 2017
Extraordinary reserve	25,584	15,378	10,206
Capital contributions reserve	5,146	5,146	-
Transfer reserves	37,006	37,006	-
IAS 19 actuarial effects reserve	(202)	(139)	63
First-time adoption reserve	2,320	2,320	-
Retained earnings	24,993	22,974	2,019
Other reserves	**94,847**	**82,685**	**12,162**

At June 30, 2018, Other reserves amounted to Euro 94,847 thousand showing a net increase of Euro 12,162 thousand compared to December 31, 2017, deriving mainly from the combined effect of: i) change in the actuarial effects reserve IAS 19 of Euro 63 thousand, ii) allocation of the result for the year 2017 of Euro 12,225 thousand.

The First-time adoption reserve of IFRS, positive for an amount equal to Euro 2,320 thousand at June 30, 2018, represents the effects on Equity of the transition to IAS/IFRS of the Garofalo Health Care Group.

Note 17 Employee benefits

This item includes post-employment benefits valued using the actuarial valuation method of the unit projection of the receivable carried out by independent actuaries in accordance with IAS 19 - Employee benefits.

The main demographic assumptions used by the actuary for the HY are as follows:

- for the probability of death determined by the General State Accounting called RG48, broken down by gender;

- for the period of retirement for the generic asset, it was assumed that the first of the retirement requirements valid for the Obligatory General Insurance will be reached;

- for the probability of leaving work due to causes other than death, an annual frequency of 9.36% was considered;
- for the probability of anticipation, a year-on-year value of 2% was assumed with a maximum repeatability of two times;
- for the percentage of anticipation requested 100.00%;
- For the technical discounting rate, the interest rate curve was used based on the effective yield rates of bonds denominated in Euro of a primary company with AA rating or higher.

The main economic-financial assumptions used by the actuary are:

	At June 30, 2018	At December 31, 2017
Annual inflation rate	1.25%	1.25%
Annual real rate of remuneration by categories:		
Executives	2.60%	2.60%
Managers	1.70%	1.70%
White collars	1.40%	1.40%
Annual TFR increase rate	2.02%	2.02%

The changes in the years was as follows (in Euro thousands):

Balance at December 31, 2017	**9,119**
Financial expenses/(income)	13
Uses	-
Net actuarial gains (losses) accounted in the year	112
Transfers in/(out)	(148)
Service costs	28
Balance at June 30, 2018	**9,124**

According to the requirements of IAS 19 - Employee benefits, a sensitivity analysis must be carried out as the main actuarial assumptions included in the calculation model vary. The following tables show, in absolute and relative terms, the changes in the liability assessed IAS19 (DBO) in the hypothesis of a 10% positive or negative change in the revaluation and/or discounting rates. The results obtained in thousands of Euro for HY1 2018 and for the year ended December 31, 2017 are summarized in the following tables:

		June 30, 2018		
		Annual discount rate		
		-10%	*100%*	*10%*
Annual inflation rate	*-10%*	9,125	9,067	9,010
	100%	9,183	**9,124**	9,066
	10%	9,242	9,182	9,123

Note 18 Provisions for risks and charges

Provisions for risks and charges at June 30, 2018 and December 31, 2017 amounted to Euro 7,593 thousand and Euro 8,397 thousand respectively and mainly includes the healthcare dispute risks provision.

The table below shows the Provisions for risks and charges at June 30, 2018 compared with the statement at December 31, 2017:

	At June 30, 2018	At December 31, 2017	Change 2018 vs 2017
	In Euro thousands		
Provisions for risks and charges – term-end indemnity provisions	125	94	31
Provisions for risks and charges – healthcare dispute risks provision	6,810	6,750	60
Provisions for risks and charges – other provision for risks and charges	658	1,553	(895)
Total provisions for risks and charges	**7,593**	**8,397**	**(804)**

The table below shows the change in Provisions for risks and charges at June 30, 2018 compared to the change at December 31, 2017:

in Euro thousands	Provisions for risks and charges	term-end indemnity provisions	healthcare dispute risks provision	other provision for risks and charges
Provisions for risks and charges at December 31, 2017	**8.397**	**94**	**6.750**	**1.553**
Accruals	293	31	189	73
Disposal	(917)	-	-129	-788
Reversal	(180)	-	-	-180
Provisions for risks and charges at June 30, 2018	**7.593**	**125**	**6.810**	**658**

Provisions for risks and charges include the end-of-term mandate of Directors for a total of Euro 125 thousand at June 30, 2018, Euro 94 thousand at December 31, 2017, and includes allocations for HY1 2018 for the companies Rugani Hospital S.r.l. equal to Euro 30 thousand, C.M.S.R. Veneto Medica S.r.l. for Euro 66 thousand and Casa di Cura Prof. Nobili S.p.A. for Euro 28 thousand. The change compared to the previous year of Euro 30 thousand is due to the allocations made during the period by the companies C.M.S.R. Veneto Medica S.r.l. for Euro 8 thousand, Rugani Hospital S.r.l. for Euro 10 thousand, Casa di Cura Prof. Nobili S.p.A. for Euro 13 thousand.

Healthcare dispute risks provisions amounted to Euro 6,810 thousand at June 30, 2018, and show a net increase of Euro 60 thousand compared to December 31, 2017. The item includes liabilities considered probable, in the face of claims for damages made by patients of the facilities, in the exercise of healthcare activity both as affiliation and private. The allocation is the result of a detailed analysis of claims for damages both judicial and extra-judicial and also takes into account events that occurred at the reporting date even if not declared for which the company supported by the opinion of its lawyers has decided to record in its financial statements. .The change in the item in due to:

(i) Accruals for Euro 189 thousands, attributable for Euro 161 thousands to the Company Hesperia Hospital Modena S.p.A. and for Euro 30 thousand to the company Sanimedica S.r.l. as a result of the occurrence of new events of the worsening of positions in previous year.

(ii) Disposals for Euro 129 thousand attributable to the company Hesperia Hospital Modena S.p.A. for Euro 81 thousand, to the company Rugani Hospital S.r.l. for Euro 7 thousand, to the company Casa di Cura Villa Berica S.p.A. for Euro 36 thousand and to the company Casa di Cura Villa Garda S.p.A. for Euro 5 thousand

Other provision for risks at June 30, 2018 amounted to Euro 658 thousand, Euro 1,553 thousand at December 31, 2017, with a decrease for Euro 896 thousand. At June 30, 2018, the item mainly includes: (i) allocations to the provision for risks and charges of the company Hesperia Hospital Modena S.p.A. attributable to outstanding disputes with former employees for a total amount of Euro 215 thousand (ii) to the allocations to the risks provision of Casa di Cura Prof. Nobili S.p.A. of Euro 302 thousand, allocated for requests for budget overruns on healthcare services as affiliation rendered and collected, for which there is a high probability that the structures will have to repay these amounts; (iii) to the risks deriving from the inspection carried out in 2012, by the Labour Inspectorate at Rugani Hospital S.r.l., which contested the use in the form of self-employment services of the nursing staff, referring this service to the scope of employment, for an amount of Euro 103 thousand.

The change in the item is due to:

(i) Accruals for Euro 73 thousand attributable to the company Hesperia Hospital Modena S.p.A, for Euro 32 thousand; to the Casa di Cura Prof. Nobili S.p.A for Euro 30 thousand; to Villa Von Siebenthal S.r.l.; for Euro 10 thousand. Disposal for Euro 787 thousand attributable to the company Hesperia Hospital Modena S.p.A for Euro 88 thousand attributable to outstanding disputes with former employees; to the company Casa di Cura Villa Berica S.p.A. following the issue of a credit note to the ASL/USL/USLL as a consequence of the overrun of the budget for healthcare services as affiliation rendered and collected, for which the counterparty requested and obtained reimbursement; to the company Casa di Cura Prof. Nobili for Euro 40 thousand

(ii) Reversal for Euro 180 thousands, fully attributable to the company Hesperia Hospital following the transaction with a former employee described above.

Note 19 Non-current financial payables

Non-current financial payables include medium/long-term variable rate bank loans.

The table below shows the figure relating to the financial payables that the Garofalo Group has outstanding:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Other non-current financial payables	241	6,744	(6,503)
Non-current payables to banks	25,145	27,758	(2,613)
Total non-current financial payables	**25,386**	**34,502**	**(9,116)**

The breakdown of Other non-current financial payables at June 30, 2018, compared to the balance at December 31, 2017 is as follows:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Payables to shareholders for loans	10	6,401	(6,391)
Payables to leasing companies	231	343	(112)
Total other non-current financial payables	**241**	**6,744**	**(6,503)**

Other non-current financial payables of the company amounted to Euro 241 thousand at June 30, 2018 and Euro 6,744 thousand at December 31, 2017.

Payables to shareholders for loans amounted to Euro 10 thousand at June 30, 2018 and Euro 6,401 thousand at December 31, 2017. The change between June 30, 2018 and December 31, 2017 is mainly due to the reclassification of the financial payable to Larama 98 S.p.A. with maturity June 30, 2019 under Other current financial payables for Euro 6,130 thousand.

Payables to leasing companies refers to the recognition in the financial statements of the residual financial payable of leased assets accounted for using the financial method and relating to the purchase mainly of healthcare equipment. The item amounted to Euro 231 thousand at June 30, 2018, and was down due to the reclassification to short-term of instalments payable by June 30, 2019.

The breakdown of Non-current payables to banks amounted to Euro 25,145 thousand at June 30, 2018 and Euro 27,758 thousand at December 31, 2017.

The tables below show the loans entered into by the companies of the Group, relating to HY1 2018 and the year ended December 31, 2017, with evidence of the amounts due within and beyond 12 months:

Description	Annual interest rate	Maturity	At June 30, 2018	At December 31, 2017
	%		In Euro thousands	
MPS – Antonveneta	3.30%	10 Apr 2019	394	591
Carige	4.05%	June 30, 2023	5,391	5,913
Mortgage Banca Popolare di Novara no. 7054702	Euribor 3m base 365	31 Dec 24	697	748
Mortgage Banca Popolare di Novara no. 2902709	Euribor 3m base 365	31 Mar 2018	-	76
Mortgage Banca Popolare di Novara no. 03312817	Euribor 3m base 365	31 Mar 2018	-	152
Banca di Sondrio - Unsecured mortgage	2.08%	31 Jan 2022	5,493	6,118

Biis Loan No. Ro 7496000	Euribor 3m + spread 0,85%	June 30, 2025	3,342	3,786
Biis Loan No. Ro 7496001	Euribor 3m + spread 0,85%	June 30, 2025	1,173	1,329
Carige	2.00%	30 Oct 2019	87	119
Mortgage Carige	2.50%	June 30, 2025	405	432
Mortgage Carige	5.30%	31 Dec 2031	1,086	1,113
Mortgage S.Paolo	4.15%	31 Dec 2030	-	5
Mortgage Carige	2.85%	31 Dec 2025	12,270	13,000
Total			**30,338**	**33,382**
Of which: Payables to banks non-current portion of loans			25,145	27,758
Payables to banks non-current portion of loans			5,193	5,624

Banca Infrastruttura Innovazione e Sviluppo S.p.A. (now known as Intesa San Paolo S.p.A.) has granted Villa Von Siebenthal S.r.l. two loans, the first of which consisted of Euro 6.7 million and the second Euro 2.5 million, for a total of Euro 9.2 million. The two loans were made with separate loan agreements. The loan agreements provide for: (i) the commitment of the borrowing party to comply with the financial parameter (so-called financial covenant) of maintaining a ratio between the net financial position and gross operating margin lower or equal to 12 to be calculated within 60 days from close; (ii) a c.d. (cross-default) clause between the two contracts to specify that the failure of one implies the right of the bank to accelerate the second contract; (iii) a c.d. (cross-default) clause with respect to the non-fulfillment of any monetary obligation of the borrowing party that is not remediated within the prescribed term.

The calculation of the aforementioned criterion on the financial statements must be approved by Villa Von Siebenthal S.r.l. on an annual basis.

Financial Parameter (Covenant)	Threshold Value	Value Recorded on Last Registration Date (December 31, 2017)
Net Financial Position / Gross Operating Margin	<12	9.8

For the interim financial statements at June 30, 2018, the financial parameter (covenant) is in compliance and no negative pledges or events of default are expected.

The decrease in the HY 2018 of Non-current payables to banks of Euro 2,613 thousand compared to the previous year is attributable to the payment of instalments of loans entered into by the individual companies.

The changes in liabilities deriving from financing activities are shown below, in accordance with IAS 7 Cash Flow Statement:

In Euro thousands	At June 30, 2018	Cash flows	Change Fair Value	Reclass.	At December 31, 2017
Other non-current financial payables	(241)	373	-	6,130	(6,744)
Non-current liabilities for derivative financial instruments	(11)	-	-		(11)

Non-current payables to banks	(25,145)	2,607	-	7	(27,758)
Current payables to banks	(18,003)	1,941	8	(6)	(19,946)
Other current financial payables	(7,172)	(492)	-	(6,130)	(550)
Current financial receivables	25	22	-		3
Cash and cash equivalents	29,338	6,703	-		22,635
Net financial debt	**(21,209)**	**11,154**	**8**	-	**(32,371)**

It is noted that the Cash flows column indicates the cash flows of the Consolidated Cash Flow statement.

Note 20 Liabilities for non-current derivative instruments

Liabilities for non-current derivative financial instruments amounted to Euro 11 thousand at June 30, 2018. There were no changes compared to December 31, 2017.

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Non-current liabilities for derivative financial instruments	11	11	-
Total liabilities for financial instruments for derivative instruments	**11**	**11**	**-**

The Group uses derivative financial instruments such as interest rate swaps to hedge the risks deriving from fluctuations in interest rates. These derivative financial instruments are initially recognized at fair value on the date they are stipulated; subsequently, this fair value is periodically re-measured.

The company opted not to account for these instruments using the hedge accounting method.

The rate derivatives are Over The Counter (OTC) instruments, i.e. they are traded bilaterally with market counterparties and the determination of the relative current value is based on valuation techniques that refer to input parameters (such as interest rate curves) observable on the market (level 2 of the fair value hierarchy required by IFRS 7 and further detailed in note 39).

With reference to the financial instruments existing at June 30, 2018, the following is reported:

- all financial instruments measured at fair value fall within Level 2 (identical balance in 2016 and 2015);
- in HY1 2018 and in 2017, there were no transfers from Level 1 to Level 2 and vice versa;
- in HY1 2018 and in 2017, there were no transfers from Level 3 to other levels and vice versa.

Derivative financial instruments are valued using interest rates and yield curves as reference at commonly quoted intervals.

Note 21 Trade payables

Trade payables amounted to Euro 22,553 thousand at June 30, 2018 and Euro 19,296 thousand at December 31, 2017. The main objective of these liabilities is to finance the Group's operating activities.

In Euro thousands	At June 30,	At December 31,	Change

	2018	2017	2018 vs 2017
Payables to suppliers	13,751	12,519	1,232
Payables to Doctors	652	777	(125)
Payables to others	314	117	197
Payables for invoices to be received	8,259	6,170	2,089
Payables for credit notes to be received	(423)	(287)	(136)
Total trade payables	**22,553**	**19,296**	**3,257**

At June 30, 2018, there was an increase of Euro 3,257 thousand.

The main accounts that make up this item are:

- Payables to Suppliers, which amounted to Euro 13,751 thousand at June 30, 2018 and Euro 12,519 thousand at December 31, 2017;
- Payables to Doctors, which amounted to Euro 652 thousand at June 30, 2018 and Euro 777 thousand at December 31, 2017;
- Payables for invoices to be received, which amounted to Euro 8,259 thousand at June 30, 2018 and Euro 6,170 thousand at December 31, 2017. The increase in the item is due to the provisions made in line with the accrual principle.

Note 22 Current financial payables

The following table shows the figures relating to current financial payables that the Group has put in place:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Current payables to banks	18,003	19,946	(1,943)
Total other current financial payables	7,173	550	6,623
Total current financial payables	**25,176**	**20,496**	**4,680**

Current payables to banks mainly consists of short-term overdrafts and facilities and short-term loans to be repaid during the year.

The breakdown of Current payables to banks at June 30, 2018, compared with the balance at December 31, 2017 is as follows:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017

Current payables to banks - 4 payables to banks (short-term portion of loans)	5,193	5,624	(431)
Current payables to banks - 4 payables to banks (account)	-	167	(167)
Current payables to banks - 4 payables to banks (advances)	12,810	14,155	(1,345)
Total current payables to banks	**18,003**	**19,946**	**(1,943)**

Short-term portion of loans at June 30, 2018 refers to loans with repayments within 12 months of the following companies: Rugani Hospital S.r.l., CMSR Veneto Medica S.r.l., L'Eremo di Miazzina S.p.A., FI.D.ES. Medica S.r.l., FI.D.ES. Servizi S.c.a.r.l..

Current payables to banks for advances refers to advances on commercial invoices for the financing of operating activities.

The breakdown of Current financial payables at June 30, 2018, compared with the balance at December 31, 2017 is as follows:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Other current financial payables - 3 payables to shareholders for loans	6,214	-	6,214
Other current financial payables - leasing companies	284	404	(120)
Other current financial payables - accrued and deferred financial liabilities	327	146	362
Security deposits	348	-	348
Total other payables other financial payables	**7,173**	**550**	**6,623**

Payables to shareholders for loans at June 30, 2018 amounted to Euro 6,214 thousand and referred to: (i) for Euro 6,130 thousand to the financial payable to Larama 98 S.p.A. with maturity June 30, 2019, classified as Other non-current financial payables at December 31, 2017; (ii) for Euro 84 thousand to interest expense accrued on the financial payable to Larama 98 S.p.A. in the HY.

Payables to leasing companies refer to the recognition in the financial statements of the current financial payable for the acquisition of leased assets accounted for using the financial method and relating to the purchase mainly of healthcare equipment. The item amounted to Euro 284 thousand at June 30, 2018, and was down due to the payment of instalments due.

Financial accrued and deferred liabilities mainly refer to interest expense accrued on an accruals basis on mortgages outstanding at June 30, 2018 but not yet settled on the date.

Security deposits amounted to Euro 348 thousand at June 30, 2018 and refers to deposits made by patients of the Fides Group facilities, to guarantee payment of the services rendered.

Note 23 Tax payables

Tax payables include payables relating to IRES, IRAP, tax consolidation, and other current taxes. The breakdown is as follows:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Tax payables – Tax payables IRES	1,371	347	1,024
Tax payables – Tax payables IRAP	800	281	519
Tax payables – from tax consolidation	3,144	3,280	(136)
Total tax payables	**5,315**	**3,908**	**1,407**

Tax payables went from Euro 3,908 thousand at December 31, 2017 to Euro 5,315 thousand at June 30, 2018, an increase of Euro 1,407 thousand mainly due to the increase in the tax base for the company Hospital Modena S.p.A. and Rugani Hospital S.r.l that are out of the Fiscal consolidation perimeter.

Note 24 Other current liabilities

At June 30, 2018, there were Other current liabilities for an amount of Euro 11,149 thousand. Below are the details compared to December 31, 2017:

In Euro thousands	At June 30,	At December 31,	Change
	2018	2017	2018 vs 2017
Payables to social security institutions	1,647	2,194	(547)
Payables to the Tax Authorities	112	103	9
Payables for withholding taxes	1,474	1,722	(248)
Payables to employees	4,755	3,911	844
Other payables	3,161	3,089	72
Total other current liabilities	**11,149**	**11,019**	**130**

Other current liabilities increased by Euro 130 thousand, mainly refers to the following changes: (i) decreases in social security payables, for Euro 547 thousand, of which Euro 280 thousand for L'Eremo di Miazzina S.p.A., Euro 236 thousand for Hesperia Hospital Modena S.p.A. adjusted by an increase of Euro 76 thousand related to Casa di Cura Prof. Nobili S.p.A.; (ii) increase in payables to employees of Euro 844 thousand of which Euro 115 thousand for Casa di Cura Villa Berica S.p.A., Euro 127 thousand for Villa Von Siebenthal S.r.l., Euro 428 thousand for Hesperia Hospital Modena S.p.A. and Euro 137 thousand for Casa di Cura Villa Garda S.p.A.. Increase in payables to employees is due to the staff increase (from 1.083 at December 31, 2017 to 1.110 at June 30, 2018.

Other payables include Euro 1,250 thousand to Larama 98 S.p.A. not yet paid.

Note 25 Revenue from services

Revenue from services amounted to Euro 79,535 thousand in 2018, an increase of Euro 13,812 thousand compared to the previous year. All revenue derives from services provided in Italy.

The table below shows the breakdown of revenue from services for the six months ended June 30, 2018 and June 30, 2017:

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Hospital services	61,894	55,352	6,542
Territorial and social-care services	17,641	10,371	7,270
Total revenue from services	**79,535**	**65,723**	**13,812**

Increase in revenue from services for Euro 13,812 thousand at the six months ended June 30, 2018, Is mainly due to: (i) the change in the scope of consolidation attributable to the acquisition of the Fides Medica Group (Euro 6,962 thousand) and Casa di Cura Prof. Nobili S.p.A. (Euro 4,643 thousand); the increase in revenue from services by Hesperia Hospital Modena S.p.A. for Euro 621 thousand, essentially referred to services relating to acute and post-acute services, and outpatient services to private patients; (iii) the increase in revenue by Rugani Hospital Srl, for Euro 1,247 thousand, mainly due to hospital services to out-of-pocket patients.

Revenue is accounted for performed services. It is noted that in accordance with IFRS 15, the Group recognizes revenue deriving from the provision of services and sales of goods at the fair value of the amount received or to be received, net of adjustments relating to the overrun of the revenue budgets (established on the basis of maximum expenditure limits acceptable by the Regions for the services provided by private healthcare facilities) related to the services as affiliation, communicated by the Regions to each healthcare facility.

The following table shows the breakdown of revenue from hospital services for the six months ended June 30, 2018 and June 30, 2017:

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Services related to acute and post-acute	49,134	43,160	5,974
Outpatient Services	12,760	12,192	568
Total hospital services	**61,894**	**55,352**	**6,542**

Revenue from hospital services amounting to Euro 61,894 thousand in the year ended June 30, 2018 increased by a total of Euro 6,542 thousand, with an impact of 77% on the Group's total revenue.

Revenue from services relating to acute and post-acute services amounted to Euro 49,134 thousand, an impact of 61% on the Group's total revenue for the six months ended June 30, 2018 (Euro 43,160 with an impact of 65% for the six months ended June 30, 2017); the increase of Euro 5,974 thousand is mainly attributable to: (i) entry in the Group of Casa di Cura Prof. Nobili for Euro 4,643 thousand; (ii) Rugani Hospital S.r.l. for Euro 842 thousand; (iii) the Company Hesperia Hospital Modena S.p.A. for Euro 391 thousand; (iv) Casa di Cura Villa Berica S.p.A. for Euro 360 thousand.

Revenue from outpatient services amounted to Euro 12,760 thousand, an impact of 16% on the Group's total revenue for the six months ended June 30, 2018 (Euro 12,192 with an impact of 18% at June 30, 2017) and have remained substantially in line, recording a slight increase of Euro 568 thousand.

The table below shows the breakdown of revenue from territorial and social-care services at June 30, 2018 and June 30, 2017:

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Social-care services	11,200	3,956	7,244
Territorial outpatient services	6,441	6,415	26
Territorial and social-care services	**17,641**	**10,371**	**7,270**

Revenue from territorial and social-care services amounted to Euro 17,641 thousand in the HY ended June 30, 2018 compared to Euro 10,371 for the six months ended June 30, 2017, an increase of Euro 7,270 thousand, with an impact of 22% on Group revenue.

Social-care services for Euro 11,200 thousand represent 14% of the Group's total revenue for the six months ended June 30, 2018 (Euro 3,956 thousand with an impact of 6% for the six months ended June 30, 2017); the increase in the item mainly refers to the change in the scope of consolidation attributable to the acquisition of the Fides Group occurred at June 28, 2017, for Euro 6,966 thousand on revenue for social-care services.

Territorial outpatient services amounting to Euro 6,441 thousand represent 8% of total Group services for the six months ended June 30, 2018 (Euro 6,415 thousand with an impact of 10% for the six months ended June 30, 2017); the item has remained substantially in line, recording a change of Euro 26 thousand.

Note 26 Other operating revenue

Other operating revenue amounted to Euro 786 thousand for HY1 2018 and to Euro 342 thousand for the year ended June 30, 2017, recording a change of Euro 444 thousand.

The table below shows the breakdown of other operating revenue for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Other income – third parties	612	211	401
Income from use of outpatient services	11	9	2
Gains from disposal of assets	7	7	0
Contingent assets	156	115	41
Total other operating revenue	**786**	**342**	**444**

The increase is mainly due:
(i) to the performance of the other operating revenue of Hesperia Hospital Modena S.p.A., which recorded an increase of Euro 153 thousand compared to the HY 2017;
(ii) to other operating revenue of the Fides Group for Euro 130 thousand and of Casa di Cura Prof. Nobili S.p.A. for Euro 114 thousand, which became part of the consolidation scope following the acquisition, which took place respectively on June 28, 2017 and December 6, 2017.

Note 27 Costs for raw and ancillary materials, consumables and goods

Costs for raw and ancillary materials, consumables and goods amounted to Euro 11,600 thousand for the six months ended June 30, 2018 and to Euro 10,562 thousand for the six months ended June 30, 2017, an increase of Euro 1,038 thousand.

The table below shows the breakdown of this item for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Healthcare items and prostheses	8,320	7,588	732
Medical and pharmacological material	1,865	1,782	83
Material for analysis and hygiene	593	585	8
Other	632	463	169
Change in inventories of raw and ancillary materials, consumables and goods	190	144	46
Total raw and ancillary materials and consumables	**11,600**	**10,562**	**1,038**

For the six months ended June 30, 2018, the most significant component of costs for raw and ancillary materials and consumables is represented by costs incurred for healthcare items and prostheses, equal to Euro 8,320 thousand, an increase compared to the previous HY of Euro 732 thousand. The cost component related to the purchase of medical and pharmacological material follows in terms of impact, with a balance of Euro 1,865 thousand compared to Euro 1,782 thousand for the six months ended June 30, 2017. Within the scope of consolidation, the companies that mostly contribute to the balance of the item for the six months ended June 30, 2018 are Hesperia Hospital Modena S.p.A. (operating costs incurred in the HY 2018 for Euro 6,764 thousand), in line with the six months ended June 2017, despite a significant increase in turnover generated by the company as a result of the renegotiation of supply contracts and the implementation of efficiency improvement procedures for warehouse management, Rugani Hospital S.r.l. (operating costs incurred in the HY 2018 for Euro 1,515 thousand) and Casa di Cura Villa Berica S.p.A. (operating costs incurred in the HY 2018 for Euro 1,426 thousand). The aforementioned increase in operating costs is mainly attributable: (i) to the inclusion in the consolidation scope of the companies belonging to the Fides Group (consolidated from the July, 1 2017) for Euro 236 thousand and Casa di Cura Prof. Nobili S.p.A. (consolidated from the December 1, 2017 for Euro 508 thousand, (ii) to the companies Casa di Cura Villa Berica S.p.A. for Euro 155 thousand and Rugani Hospital S.r.l. for Euro 144 thousand, mainly related to healthcare items and prostheses, medical and pharmacological material.

Note 28 Costs for services

Costs for services amounted to Euro 29,338 thousand for the six months ended June 30, 2018 and to Euro 23,226 thousand for the six months ended June 30, 2017, an increase of Euro 6,112 thousand.

The table below shows the breakdown of these costs for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Medical and nurse services	17,427	14,243	3,184
Maintenance services on property owned	1,205	1,110	95
Catering services	1,074	917	157
Technical healthcare services	1,140	918	222
Cleaning services	815	622	193
Expenses for electricity	704	609	95

Project collaboration (co co co)	497	270	227
Directors' fees	973	409	564
Rent expenses – equipment	390	578	-188
Third-party work (expenses for tests, etc.)	495	459	36
Legal consultancy	279	327	-48
Rental of linen	255	280	-25
Other	4,084	2,484	1,600
Total costs for services	**29,338**	**23,226**	**6,112**

The increase in costs for services is mainly due: (i) to the inclusion in the scope of consolidation of the companies belonging to the Fides Medica Group and Casa di Cura Prof. Nobili S.p.A. as detailed above, for a total of Euro 6,338 thousand, which mainly impacted the following items: (a) medical and nurse services for Euro 3,098 thousand; (b) administrative and legal consultancy for Euro 550 thousand, (c) catering services for Euro 325 thousand, (d) technical-health services for Euro 195 thousand, (e) costs for maintenance services on owned and third-party assets for Euro 230 thousand; (ii) effect partially mitigated by the reduction for (a) Euro 159 thousand of Villa Von Siebenthal S.r.l. following the transfer from freelancers to employees of 25 nurses and rehabilitation technicians and (b) Euro 252 thousand of Centro Medico Palladio S.r.l. company in liquidation starting from July 31, 2017.

Other costs for services for the six months ended June 30, 2018 mainly consist of: (i) expenses for water, natural gas and gas for Euro 491 thousand; (ii) administrative consultancy and payroll processing for Euro 314 thousand; (iii) other rents payable for Euro 238 thousand; (iv) technical consultancy for Euro 218 thousand; (iv) waste disposal service for Euro 188 thousand. The item increased by Euro 1,600 thousand compared to June 30, 2017 mainly attributable to the inclusion in the scope of consolidation of the companies belonging to the Fides Group for Euro 1,093 thousand and Casa di Cura Prof. Nobili S.p.A. for Euro 533 thousand.

Note 29 Personnel costs

Personnel costs amounted to Euro 19,815 thousand for the six months ended June 30, 2018 and to Euro 17,134 thousand for the six months ended June 30, 2017, an increase of Euro 2,681 thousand.

The table below shows the breakdown of these costs for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Wages and salaries	14,271	12,248	2,023
Social security contributions	4,246	3,634	612
TFR	1,019	975	44
Other	279	277	2
Total personnel costs	**19,815**	**17,134**	**2,681**

The increase of Euro 2,681 thousand in the HY 2018 is attributable to the acquisition of the Fides Group and Casa di Cura Prof. Nobili S.p.A. for Euro 1,063 thousand and Euro 1,453 thousand respectively, which took place in 2017 and as direct consequence resulted in a significant increase in the company staff.

The increase is partially mitigated by the decrease in personnel costs attributable to the company Hesperia Hospital Modena S.p.A. for Euro 710 thousand as a result of the reduction of the company staff.

Note 30 Other operating costs

Other operating costs amounted to Euro 3,503 thousand for the six months ended June 30, 2018, an increase of Euro 117 thousand compared to Euro 3,386 thousand for the six months ended June 30, 2017.

The table below shows the breakdown of these costs for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Non-deductible VAT from pro-rata	2,802	2,703	99
Taxes	400	279	121
Other operating expenses	-	-	-
Contingent liabilities	82	191	- 109
Non-deductible expenses	7	29	- 22
Membership fees	55	30	25
Other costs	157	154	3
Total other operating costs	**3,503**	**3,386**	**117**

The aforementioned increase of Euro 117 thousand is essentially due: (i) to the acquisition of the Fides Group for Euro 157 thousand, of which Euro 30 thousand accounted for non-deductible VAT and Euro 80 thousand accounted for taxes, and of the company Casa di Cura Prof. Nobili S.p.A. for Euro 228 thousand, of which Euro 162 thousand related to non-deductible VAT pro-rata, (ii) to the decrease in the item of Euro 298 thousand for Hesperia Hospital Modena S.p.A., mainly related to non-deductible VAT pro-rata for Euro 202 thousand and deductible contingent liabilities recorded for Euro 80 thousand.

Note 31 Amortization, depreciation and write-downs

Amortization, depreciation and write-downs amounted to Euro 3,188 thousand for the six months ended June 30, 2018, an increase of Euro 433 thousand compared to Euro 2,755 thousand for the six months ended June 30, 2017.

The table below shows the breakdown and change of this item for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Amortization Intangible assets	159	154	5
Depreciation Tangible assets	2,844	2,501	343
Write-downs	185	100	85

Total amortization, depreciation and write-downs	**3,188**	**2,755**	**433**

For the six months ended June 30, 2018, the item analyzed increased by a total of Euro 433 thousand and the change is mainly attributable (i) to the increase in depreciation related to tangible assets for Euro 343 thousand due to the inclusion in the scope of consolidation of the companies of the Fides Group and Casa di Cura Prof. Nobili S.p.A. and (ii) to the write-downs of receivables included in current assets for Euro 185 thousand, compared to Euro 100 thousand of previous year, of which Euro 150 thousand are related to the company Hesperia Hospital Modena S.p.A.

For details on the item related to amortization, depreciation and write-downs of trade receivables, reference is made to the statements of tangible and intangible assets and to the statement of the provision for bad debts in the notes to the balance sheet.

Note 32 Adjustments of asset values and other allocations

Adjustments of asset values and other allocations amounted to Euro 121 thousand for the six months ended June 30, 2018, in decrease of Euro 1,149 thousand compared to Euro 1,270 thousand, in the previous half-year.

The table below shows the breakdown and change of this item for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Allocation to the litigation risks provision	262	1,253	(991)
Releases risks provisions	(180)	-	(180)
Other allocations	31	17	14
Write-down of equity instruments	8	-	8
Total adjustments of asset values and other allocations	**121**	**1,270**	**(1,149)**

At June 30, 2018, provisions for lawsuits amounted to Euro 262 thousand, compared to Euro 1,253 thousand in the previous year. The Group has in fact allocated Euro 262 thousand to cover risks arising during the year due to new lawsuits; for further details, please refer to the information in Note 18.

Management, referring to the risks arose in previous years, considered the provision previously set aside sufficient. The lower portion of the provision recorded for the six months ended June 30, 2018 compared to June 30, 2017 is attributable to a greater focus of management on the prevention of health risks.

For the six months ended June 30, 2018, the Group recorded releases of provisions for risks on receivables for Euro 180 thousand, entirely related to Hesperia Hospital Modena S.p.A. following the transaction with a former employee.

Note 33 Financial income

Financial income amounted to Euro 1 thousand for the six months ended June 30, 2018, a decrease of Euro 758 thousand compared to Euro 759 thousand for the six months ended June 30, 2017.

The table below shows the breakdown and change of this item for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Interest income	1	753	(752)
Other income	-	6	(6)
Total financial income	**1**	**759**	**(758)**

The main change in the HY 2018 is related to the decrease in interest income of Euro 752 thousand and mainly refers to default interest income invoiced in HY1 2017 by the company L'Eremo di Miazzina S.p.A., to ASL VCO at the end of the dispute on the 2007/2008 production balance.

Note 34 Financial expenses

Financial expenses amounted to Euro 583 thousand for the six months ended June 30, 2018, an increase of Euro 182 thousand compared to Euro 401 thousand in the previous year.

The table below shows the breakdown and change of this item for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Interest expenses on mortgages	355	248	107
Bank interest expenses	53	55	(2)
Interest expenses on advances	49	31	18
Other interest expense	105	50	55
Financial expenses	21	17	4
Total financial expenses	**583**	**401**	**182**

For the six months ended June 30, 2018, there were increases for Euro 182 thousand, mainly related to interest expense on mortgages for Euro 107 thousand, which refer to Fides Group for for Euro 196 thousand and in particular to the loan stipulated for the acquisition of the Group from original Euro 13 million mitigated by the decrease of Euro 34 thousand for Rugani Hospital S.r.l. due to the reduction in the floor rate of the unsecured loan to 1.20% with Banca Popolare di Sondrio, and Euro 23 thousand of C.M.S.R. Veneto Medica S.r.l. in relation to the settlement of mortgages with Banca Carige and Monte dei Paschi di Siena.

Other interest expenses mainly refer to the interest accrued with the companies Larama 98 S.p.A. for the six months ended June 30, 2018, equal to Euro 84 thousand.

Note 35 Results of investments valued with the equity method

The table below shows the breakdown and change of this item for the six months ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Portion of result	154	-	154
Total	**154**	**-**	**154**

The item for the half year ended June 30, 2018, amounting to Euro 154 thousand pertains to the Group and is realized by Il Fiocco S.c.a.r.l. As previously described, the company became part of the Group starting from the 2017 financial year, with the acquisition of the Fides Group, the positive result achieved in the first half of 2018 was due to the extension of the activities carried out by the aforementioned company and in particular to the activation of the R.E.M.S. services.

Note 36 Income taxes for the period

The table below shows the breakdown and change of this item for the periods ended June 30, 2018 and June 30, 2017.

In Euro thousands	For the six months ended June 30,		Change
	2018	**2017**	**2018 vs 2017**
Current taxes	2,854	1,939	915
Deferred tax assets	19	- 71	90
Deferred tax liabilities	430	205	225
Income from tax consolidation	(32)	-	(32)
Other	72	38	34
Total income taxes	**3,343**	**2,111**	**1,232**

In the period ended June 30, 2018, income taxes show a balance of Euro 3,343 thousand, an increase of Euro 1,232 thousand from the previous year, essentially due to higher current taxes of Euro 915 thousand due to the increase recorded on the Group's business volume.

Provided below is the reconciliation between the nominal and effective rate of the Group for the years ended June 30, 2018 and June 30, 2017.

IRES Reconciliation	**For the six months ended June 30,**	
In Euro thousands	**2018**	**2017**
Profit before taxes	**12,328**	**8,090**
IRES rate in force	24%	24%
Theoretical tax expense (pre-tax profit * IRES rate)	**2,959**	**1,942**
Income taxes with different IRES rate	(629)	(387)

Deficit allocation	77	77
Non-deductible taxes	152	70
Amortization goodwill	(55)	(55)
Other changes	80	(5)
Total taxes in the Income Statement ………………………………..	**2,584**	**1,642**
Effective tax rate ……..…………………..…………………….	**21.0%**	**20.3%**

IRAP Reconciliation	For the six months ended June 30,	
In Euro thousands	**2018**	**2017**
Pre-tax profit ……………………………………………..……	**12,756**	**7,732**
IRAP rate in force ……………………....…………………….	3.9%	3.9%
Theoretical tax expense (pre-tax profit * IRAP rate) ……………………………..	**497**	**302**
Other changes …………………………………………………………..	220	129
Total IRAP tax ………………………………..………………….	**717**	**431**
Taxable Amount Regions (3.90%)…………………………………………….	562	321
Taxable Amount Regions (4.82%)…………………………………………….	155	110
Total taxes in the Income Statement …………………………………	**717**	**431**
Effective tax rate ……..…………………..…………………….	**5.6%**	**5.6%**

Note 37 Profit for the period

For the six months ended June 30, 2018, the profit amounted to Euro 8,985 thousand, compared to Euro 5,979 thousand for the six months ended June 30, 2017.

The increase in the result for the period for the six months ended June 30, 2018 is attributable for approximately Euro 1.1 million to the acquisition of the Fides Group and Casa di Cura Prof. Nobili S.p.A.

Note 38 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the profit for the period attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are also calculated by dividing the profit attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Below are the result and information on shares used to calculate basic or diluted earnings or loss per share:

In Euro thousands	For the six months ended June 30,	For the six months ended June 30,
	2018	**2017**
Net profit attributable to the shareholders of the Parent Company	8,755	5,947
Number of ordinary shares at the end of the year/period*	60,000,000	60,000,000
Basic earnings per share *(in Euro)*	0.15	0.10
Diluted earnings per share *(in Euro)*	0.15	0.10

There were no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of preparation of the financial statements.

* For the purpose of calculating basic and diluted earnings per share, the share split and the free capital increase, shown below, were considered retroactively as if they had occurred on January 1, 2017, consistent with the provisions of IAS 33, paragraph 28. In particular the issue of 59,700 thousand new shares without nominal value

Note 39 Fair value hierarchy

The contractual characteristics and the related fair value at June 30, 2018 and June 30, 2017 of the derivative financial instruments to hedge the interest rate risk are as follows:

Company	Contr.	Type	Debtor rate	Creditor rate	Start date	Maturity date	Cap. Notional (in Euro thousands)	Fair Value (in Euro thousands)	
								At June 30, 2018	At December 31, 2017
Eremo	Banco Popolare	Interest Rate Swap	0.60%	Euribor 3m	20 Apr 2015	31 Dec 2024	1,000	11	11
Total								11	11

Lastly, it is noted that, pursuant to IFRS 13, the CVA ("Credit Value Adjustment") and DVA ("Debit Value Adjustment") of the existing derivative financial instruments were calculated, noting that such amount is not significant for the purpose of recording these effects in these financial statements.

The table below shows the carrying amount of the financial instruments in place (current and non-current loans) shown in the balance sheet, comparing it with its fair value.

Financial liabilities	**June 30, 2018**		**December 31, 2017**	
In Euro thousands	**Book value**	**Fair Value**	**Book value**	**Book value**
Loans	30,338	31,322	33,382	33,086
Derivatives	11	11	11	11
Capital instruments	924	924	788	788
Total	**31,273**	**32,257**	**34,181**	**33,885**

With reference to the above financial liabilities, it is noted that they are valued at the Fair Value Level 2 (for the HY 2018 and for 2017).

Management verified that the fair value of the other items approximates the book value as a consequence of the short-term maturities of these instruments.

Fair value - hierarchy

All financial instruments recorded at fair value, or for which information is provided, are classified in the three fair value categories described below, based on the lowest level of significant input for the purposes of determining the fair value as a whole:

- Level 1: listed prices (unadjusted) in an active market for identical assets or liabilities
- Level 2: valuation techniques (for which the lowest level of significant input for determining the fair value is directly or indirectly observable)
- Level 3: valuation techniques (for which the lowest level of significant input for determining the fair value is not observable)

At the end of each period, the Group determines whether, with regard to financial instruments valued on a recurring basis at fair value, there have been transfers between the hierarchy levels, also evaluating their classification (on the basis of the lowest level of significant input for the purposes of determining the fair value as a whole).

Valuation processes

For measurements on a recurring basis and on a non-recurring basis of the fair value classified in Level 3 of the fair value hierarchy, the Group uses valuation processes to define valuation procedures and principles and to analyze changes in the measurement of fair value from one period to another.
The Group's method of calculating the fair value and the control of the models used includes a series of controls and other procedures aimed at ensuring that adequate safeguards are in place to ensure their quality and adequacy. Once prepared, the fair value estimates are reviewed and also assessed by the Chief Financial Officer (CFO).
The CFO validates the fair value estimates through the following approaches:
• Comparing prices with observable market prices or other independent sources
• Verifying model calculations
• Evaluating and confirming the input parameters
The CFO also evaluates the calibration of the model as a minimum on an annual basis or when significant events occur on the relevant markets. The CFO is responsible for verifying that the final values of the fair value have been defined in accordance with IFRS and proposes adjustments when necessary.
The evaluation techniques and the specific considerations for the level 3 input data are further explained below.

Valuation techniques and assumptions

The fair value of financial assets and liabilities is the price that would be received to sell an asset or would be paid to transfer a liability in a normal transaction on the principal (or most advantageous) market on the measurement date and at current market conditions (for example, an exit price) regardless of whether the price is directly observable or estimated using another valuation technique.
To estimate the fair value, the following methods and assumptions were used:

- The fair value of listed securities and bonds is based on the listed market price at the reporting date. The fair value of unlisted instruments, such as loans from banks or other financial liabilities, obligations under finance leases or other non-current financial liabilities, is estimated through future cash flows discounted at current rates available for debt with similar terms, such as credit risk and remaining maturities. The fair value of the shares is sensitive both to a possible change in expected cash flows and/or the discount rate and to a possible change in growth rates. For the purposes of estimating, management must use unobservable input data that is reported in the following tables. Management regularly evaluates a number of possible alternatives to such significant input data and determines their impact on the total fair value.

- The fair value of unlisted ordinary shares was estimated using the discounted cash flow model (DCF). The assessment requires that management make certain assumptions with respect to the inputs of the model, including expected cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the interval can be reasonably verified and are used in the management estimates of the fair value for these unlisted investments;

- The Group stipulates derivative financial instruments with various counterparties, principally financial institutions with credit ratings attributed. Derivatives measured using valuation techniques with detectable market data mainly consist of swaps on interest rates. The most frequently applied valuation techniques include swap models, which use the calculation of the present value. The models consider various inputs, including the credit quality of the counterparty, and interest rate curves. All derivative contracts are fully guaranteed by liquidity, thus eliminating both the counterparty risk and the risk of default by the Group.

Note 40 Commitments, risks and contingent liabilities

40.1 Financial leases and redemption commitments

The Group has entered into financial leases for various health facilities. The following table details the amount of future fees deriving from finance leases and rental contracts and the present value of the payments:

In Euro thousands	At June 30,		Dec 31, 2017	
	Minimum payments	**Current value of payments**	**Minimum payments**	**Current value of payments**
Within one year	294	284	417	404
Beyond one year but within 5 years	235	231	351	343
Beyond 5 years	-	-	-	-
Total minimum payments	530	515	768	747
Deducting interest expense	(15)	-	-21	-
Current value of lease fees	**515**	**515**	**747**	**747**

In determining the present value of the minimum payments due for the lease, the discount rate to be used is the implicit interest rate of the lease, if it is possible to determine it; if this is not possible, the marginal financing rate of the lessee must be used. Any initial direct cost of the lessee is added to the amount recognized as an asset.

40.2 Commitments and guarantees

The commitments and guarantees resulting at June 30, 2018 are described below.

Guarantees in own favour provided by the Group to third parties:

- Commercial surety with indefinite maturity of Euro 40 thousand;
- Mortgage on properties no. 401039 of Euro 8,000 thousand;
- Mortgage on properties as per transaction no. 02399 - 690420329600 with Banca Intesa San Paolo S.p.A. for Euro 19,000 thousand;
- Property mortgage entered into on April 18, 2013 for Euro 130 thousand;
- Consolidated mortgage guarantee valid until December 17, 2030 of Euro 1,000 thousand;
- Mortgage on commercial properties of Euro 790 thousand.

Guarantees provided by third parties in favour of the Group:

- Surety Letter for Euro 9,000 thousand, up to revocation;
- Surety Contract for Euro 155 thousand entered into on January 16, 2018;
- Specific Sureties with Banca Intesa San Paolo S.p.A. as per transaction no. 02399 – 690420329600 of Euro 1,482 thousand and no. 02399 – 690420329601 of Euro 4,236 thousand;
- Surety entered into on August 17, 2017 of Euro 18 thousand with maturity January 31, 2019;
- Surety for security deposits on public contracts of Euro 20 thousand;
- Surety no. 18110970 entered into on September 15, 2015 of Euro 141 thousand;
- Surety Letter valid up to revocation of Euro 260 thousand;
- Surety Letter valid up to revocation of Euro 1,820 thousand;
- Surety Letter valid up to revocation of Euro 13,000 thousand;
- First-request surety for transaction no. 800003144432 entered into on January 30, 2012 of Euro 60 thousand;
- First-request surety for transaction no. 800003330921 entered into on January 8, 2009 of Euro 67 thousand;
- First-request surety entered into on June 11, 2013 of Euro 30 thousand.

Guarantees provided by the Company in favour of third parties:

- First-request surety entered into on January 21, 2001 of Euro 94 thousand;
- Surety Letter valid up to revocation of Euro 1,950 thousand;
- Surety Letter valid up to revocation of Euro 206 thousand;
- Surety Letter valid up to revocation of Euro 200 thousand;
- Surety Letter valid up to revocation of Euro 80 thousand;
- Surety Letter valid up to revocation of Euro 790 thousand;
- Surety Letter valid up to revocation of Euro 26 thousand;
- Generic surety of Euro 50 thousand;
- Omnibus surety no. 838520 of Euro 150 thousand;
- Mortgage on commercial properties of Euro 4,000 thousand.

40.3 Financial risk management

Below is a description of the financial risks to which the Group and its subsidiaries are exposed as well as the policies and strategies used by the Company and its subsidiaries to manage these risks in the HY ended June 30, 2018 and for the year ended December 31, 2017.

It is also noted that there are no changes in direction regarding the risk management methods described below.

GHC and its subsidiaries are exposed to financial risks related to its activities, particularly related to the following:

• Credit risk, resulting from commercial transactions or financing activities;

• Liquidity risk, related to the availability of financial resources and access to the credit market;

• Market risk, in detail:

a) Operational risk related to the performance of the business;

b) Foreign exchange risk, related to operations in currency areas other than those in the related currency;

c) Interest rate risk, related to the exposure of the Company to financial instruments that generate interest;

d) Price risk, due to changes in the price of commodities.

The system for the management and monitoring of the main risks involves the CEO and the Management of the Group, the Directors and the Boards of Directors of the consolidated companies as well as the company personnel.

The risk management aims above all at protecting the stakeholders (shareholders, employees, customers, suppliers) in safeguarding the company's assets, as well as respect for the environment.

The risk management policy to which the Group is subject is managed by means of:

 the definition at central level of guidelines on which operational management must be regarding market, liquidity and cash flow risk;

 monitoring of the results achieved.

The main risk categories to which the Group is exposed are described below:

40.3.1 Credit risk

Credit risk is the risk that a counterparty does not fulfil its obligations related to a financial instrument or a commercial contract, thus leading to a financial loss.

The maximum exposure to credit risk for the Group at June 30, 2018 and December 31, 2017 is represented by the book value of the assets shown in the financial statements in trade receivables.

The receivables claimed by the company concern almost all public healthcare facilities (hospitals and/or healthcare companies) for which no particular risk of insolvency is deemed to be recorded, except for requests for spending review and regression.

The commercial credit risk is managed by each legal entity according to the policy established by the Group.

Below is the information on the commercial positions net of the provision for bad debts, related to HY1 2018 to the year ended December 31, 2017, past due:

In Euro thousands	At June 30,	At December 31,
	2018	2017
Falling due	28,484	9,512
Past due 0 - 90 days	7,525	22,660
Past due 90 - 180 days	1,032	1,006

Past due 180 - 360 days	1,167	600
Past due over 360 days	4,069	4,621
Total trade receivables	**42,147**	**38,399**

Below is the information on the commercial positions gross of the provision for bad debts, related to HY1 2018 to the year ended December 31, 2017, past due:

In Euro thousands	**At June 30,**	**At December 31,**
	2018	**2017**
Falling due	28,484	9,637
Past due 0 - 90 days	7,525	22,782
Past due 90 - 180 days	1,062	1,028
Past due 180 - 360 days	1,223	664
Past due over 360 days	6,907	7,156
Total	**45,201**	**42,047**
Provision for bad debts	(3,054)	(3,648)
Total trade receivables	**42,147**	**38,399**

The risk of insolvency is controlled locally by the management centers of the subsidiaries that monitor the collections of trade receivables. The Group's Administrative Department monitors the overall level of risk and constantly checks the overall credit exposure. The level of risk associated with this item is considered to be low.

The operational management of this risk is regulated as follows:

• assessment of customer credit standing, taking into account creditworthiness;

• monitoring of the relative expected collection flows;

• appropriate reminder actions;

• any recovery actions.

40.3.2 Liquidity risk

Liquidity risk is associated with the ability to meet the commitments deriving from the financial liabilities. Prudent management of the liquidity risk originated from normal operations requires the maintenance of an adequate level of cash or cash equivalents and the availability of funds through an adequate amount of credit facilities.

The liquidity risk is managed by the individual legal entities and is monitored centrally by the Group as the Administrative Department periodically monitors the Group's financial position through the preparation of appropriate reports of inflows and outflows, both forecast and final. This way, the Group aims to ensure adequate coverage of needs, carefully monitoring loans, and open lines of credit and related uses in order to optimize resources and manage any temporary liquidity exceedance.

The Group's objective is to create a financial structure that, in line with the business objectives, guarantees an adequate level of liquidity, minimizing the related opportunity cost and maintaining balance in terms of duration and debt composition.

The Group can count on the continuous support of the banking system, thanks to the composition of its customer portfolio (public healthcare facilities).

As part of this type of risk, in the composition of the net financial position, the Group tends to finance investments with medium/long-term payables while meeting current commitments both with the cash-flow generated by management and using short-term credit lines.

The following is the stratification of the Liabilities in place with reference to the HY 2018 and 2017 referring to financial instruments and trade payables by residual duration:

In Euro thousands	At June 30, 2018			
	Financial payables	**Trade payables**	**Liabilities for derivative instruments**	**Total**
Maturity:				
Within 12 months	25,770	22,376	-	48,146
Beyond 12 months	19,855	176	-	20,031
Non-current (5 years)	7,646	-	11	7,657
Total	**53,251**	**22,553**	**11**	**75,834**

In Euro thousands	At December 31, 2017			
	Financial payables	**Trade payables**	**Liabilities for derivative instruments**	**Total**
Maturity:				
Within 12 months	20,496	19,296	-	**39,792**
Beyond 12 months	31,314	-	-	**31,314**
Non-current (5 years)	3,188	-	11	**3,199**
Total	**54,998**	**19,296**	**11**	**74,305**

The management of financial risks is carried out on the basis of guidelines defined by the Directors of the subsidiaries; the objective is to guarantee a liability structure always in equilibrium with the composition of equity assets in order to maintain an adequate solvency of equity.

At the same time, the Group is exposed to market rate risk (interest rate), liquidity risk and credit risk.

The Group also aims to maintain an optimal capital structure in order to reduce the cost of debt. The Group monitors the maintenance of capital on the basis of the ratio between Net Financial Position (NFP) and Net Invested Capital (NIC). Net Debt is calculated as total indebtedness, including current and non-current loans and net bank exposure. Net invested capital is calculated as the sum of investments and net working capital (equity and payable relating to NFP are excluded).

40.3.3 Market risk

The global economic crisis also characterized the first half year 2018 even if in this context, the Group companies did not appear particularly exposed to the negative market fluctuations.

However, as a consequence of the progressive worsening of public accounts, the Central Administration issued, during the financial year 2012, urgent economic measures related to the containment of public spending known as spending review.

As a result of this, the Group found itself having to face the economic impact of these measures which actually resulted in a forced reduction of revenue, related to the application of spending review discounts containing the costs associated with them.

The Group's main objective is to manage the risk within certain limits, in order to safeguard the achievement of company objectives. The Group operates mainly with public healthcare facilities in the place where the nursing home operates; this context means that the economic trend strongly depends on the healthcare policies of the region to which it belongs.

In fact, the healthcare legislation is delegated at the central level to the regulatory autonomy of each Region, which on the basis of the National Healthcare Plan, adopted by the Government, on the proposal of the Ministry of Health, draws up the Regional Healthcare Plan, which represents the strategic plan of interventions for health objectives and the functioning of services to satisfy the regional population.

Precisely because of the particularity of its customers and the regulatory framework subject to rapid changes, the context is particularly complex and highly dependent on public healthcare structures and the Region of reference.

40.3.4 Currency risk

The Group's current operations are not currently exposed to the risk of exchange rate fluctuations, as the Group performs its business almost exclusively in Euro.

40.3.5 Interest rate risk

The interest rate risk to which the Group is exposed derives, in addition to the payable for short-term credit facilities to which all companies refer, to the medium/long-term debt stipulated by some companies such as Rugani Hospital S.r.l., L'Eremo di Miazzina S.p.A., CMSR Veneto Medica S.r.l., Villa Von Siebenthal S.r.l. and the Fides Group.

Loan	At June 30, 2018		
	Interest	Interest +1%	Interest -0.25%
Carige	3	5	2
MPS - Antonveneta	1	4	1
Carige	103	133	96
Mortgage Banca Popolare di Novara no. 03312817	0	1	0
Mortgage Banca Popolare di Novara no. 2902709	0	0	0
Mortgage Banca Popolare di Novara no. 7054502	4	8	3
Mortgage Banca Popolare di Novara no. 1035660	0	0	0
Banca di Sondrio	41	41	41

Biis Loan No. Ro 7496001	3	9	2
Biis Loan No. Ro 7496000	10	26	6
Carige	1	1	1
Carige	3	8	1
Intesa Sanpaolo	0	0	0
Carige	186	205	186
Total	**355**	**441**	**339**

The objective of the management of interest rate risk is to limit and stabilize the flows payable due to interest paid mainly on medium-term payables so as to have a close correlation between the underlying and the hedging instrument.

The hedging activity is assessed and eventually decided on a case-by-case basis; the Group does not have derivative interests to hedge rates.

The management of exchange rate and interest rate risk is carried out by the treasury department of the companies belonging to the Group.

40.3.6 Price risk

The Company is not currently exposed, if not in an irrelevant manner, to price risk associated with commodities.

Furthermore, the costs of healthcare material are generally subject to fluctuations and other factors outside the control of the Group. Generally, the Group manages such fluctuations through an increase in the prices of its services to the private sector and beyond the control of the Group, is the increase in the prices of the fees recognized for services in affiliation. However, analyzing the historical data to a fluctuation of the costs of sanitary material is always followed by an adjustment of the fees recognized for the services in affiliation. The Company has not adopted instruments to hedge the risk of fluctuations in the cost of these components, but has strong contractual power with respect to its suppliers by acting with a single purchasing center.

40.4 Legal disputes and contingent liabilities

Claims for damages

Starting from March 2010, the Group has suspended insurance coverage for some facilities (Hesperia Hospital Modena S.p.A., L'Eremo di Miazzina S.p.A., Rugani Hospital S.r.l., Casa di Cura Villa Berica S.p.A., Casa di Cura Villa Garda S.p.A.), and therefore received from this date claims for damages related to the operational activity of the structures.

At June 30, 2018, the Company, on the basis of the assessments of its lawyers, classified these claims for compensation as follows: (i) risk of probable loss for 88 requests corresponding to a petitum of Euro 11.9 million; (ii) the possible risk of losing the case for 8 claims for damages, of which 5 for a petitum of Euro 0.3 million, and 3 that cannot be determined; (iii) the remote risk of losing for 90 requests, of which

75 not quantifiable, and 15 that present a petitum of Euro 1.8 million. A provision for risks of Euro 7.5 million was set aside at June 30, 2018 for requests valued with probable risk of losing.

Administrative disputes

The company Rugani Hospital S.r.l. has ongoing proceedings in Appeal - Court of Appeal of Florence against sentence no. 234/2017 filed December 27, 2017 issued inter partes by the Court of Siena - Labour Section in the context of the judgement no. 264/2016 RG regarding the definition of the type of employment relationship of some workers. The risk, after consulting its legal advisors, is quantified as probable and is therefore allocated to other provisions for risks and charges for Euro 103 thousand.

The company Hesperia Hospital Modena S.p.A. has ongoing appeal proceedings against sentence no. 487/17 of the Court of Modena - Labour Section regarding a dispute initiated by a former employee for alleged illegitimacy of the dismissal of the latter. The risk, after consulting its legal advisors, is quantified as probable and is therefore allocated to other provisions for risks and charges for Euro 215 thousand.

The company Villa Von Siebenthal S.r.l. has two ongoing proceedings:

- a proceeding against SIFIN S.r.l. The dispute originates from the factoring contract concerning the non-recourse transfer of the receivables claimed by Villa Von Siebenthal S.r.l. with respect to the national and regional healthcare system. As part of the aforementioned relation, Sifin S.r.l. summoned Villa Von Siebenthal S.r.l. before the Civil Court of Rome for payment of Euro 220 thousand. With appearance of constitution and reply of June 20, 2009, Villa Von Siebenthal S.r.l. appeared before the court requesting the rejection of the requests made by Sifin S.r.l. and also filing a counter-claim for the declaration of nullity of the signed contract and reimbursement of the amount paid to the factor as interest and fees, also challenging the manner in which Sifin S.r.l. renounced the interest accrued with respect to the Lazio Region. With non-definitive sentence no. 6850/2014, filed on March 25, 2014, the Judge dismissed the case on the role, for the purpose of determining the exact credit/debit relation between the parties, providing expert technical office (CTU). In the expert report filed, the CTU concluded on the differences due from Villa Von Siebenthal S.r.l. to Sifin S.r.l. and those due from Sifin S.r.l. to Villa Von Siebenthal S.r.l. At the outcome of the hearing to clarify the conclusions held on July 6, 2016, with final sentence no. 2670/2017, filed on February 10, 2017, the Judge sentenced Sifin S.r.l. to the payment in favour of Villa Von Siebenthal S.r.l. for the amount of Euro 138 thousand, plus legal interest from the request, legal expenses and accessories.
  Against the aforementioned sentences, Sifin S.r.l. interposed before the Court of Appeal of Rome:
  - appeal against the non-definitive sentence no. 6850/2014. The proceeding was registered in n.r.g. 3098/2015. With appearance of constitution and reply of September 24, 2015, Villa Von Siebenthal S.r.l. appeared before the court requesting the rejection of the claims made by Sifin and also proceeding with an incidental appeal.
  - appeal against the definitive sentence no. 2670/2017. The proceeding was registered in n.r.g. 3212/2017. With appearance of constitution and reply of July 25, 2017, Villa Von Siebenthal S.r.l. appeared before the court requesting the rejection of the claims made by Sifin S.r.l. and also proceeding with an incidental appeal.
  - appeal for conservative seizure in the course of the lawsuit pursuant to articles 669 quater and 671 of the Code of Civil Procedure requesting the seizure of all sums present on the current accounts held by Villa Von Siebenthal S.r.l. of the receivables claimed by the same and of any other movable and/or immovable property up to the amount of Euro 161 thousand. By Order of February 12, 2018, the Court of Appeal of Rome rejected the appeal made by Sifin S.r.l.
    The risk, upon the opinion of its lawyers, is quantified as possible/remote and no liabilities have been recorded in the financial statements for these proceedings, also due to the fact of the creditor positions of Villa Von Siebenthal S.r.l. with respect to Sifin S.r.l.
- A social security dispute; the company received from the regional management INPS Lazio a request for documents for inspections regarding the relation between the supplier company

Futura soc. coop. and Villa Von Siebenthal S.r.l. with reference to the service contract between the two companies. With reference to the inspection access, Villa Von Siebenthal S.r.l. received on April 4, 2017 the Single Verification and Notification Report no. 2016003251/S1 with which, pursuant to the contract with Futura soc. coop., the company is jointly and severally liable to the latter for the payment of obligatory social security contributions for the period between 04/2013 and 11/2015 for a total of Euro 100 thousand. The risk, upon the opinion of its lawyers, is quantified as possible and no liabilities have been recorded in the financial statements for these proceedings.

Disputes with ASL/USL/ULSS

With reference to Rugani Hospital S.r.l., the appeal is pending before the Tuscany Regional Administrative Court against the provision of the AUSL Tuscany South East, as the resolutions challenged are illegitimate due to lack of competence, introducing restrictions and ceilings to the volumes of services (high complexity and specialist outpatient services, including outpatient surgery) provided to non-region residents who could only be established by the state legislator or the Tuscany Region. In essence, the AUSL Tuscany South East (with specific reference to its specific area) made a real unilateral modification of the regional regulatory discipline (the one contained in Resolution no. 343 of 2017) which, conversely, constitutes the regulatory assumption outside the provision of healthcare services and which is, therefore, unchangeable for both economic operators and for the local healthcare companies that, in part, operate as instrumental bodies of the SSR, pursuant to articles 19, 29, 72 and 76 of the regional law no. 40 of 2005 and articles 8 quinquies and 8 sexies of Legislative Decree no. 502 of 1992, as well as for the violation and misapplication of the DGR Tuscany no. 343 no. 2017, implementing article 15, paragraph 14, DL of 06.07.2012 and article 1, paragraph 574 of the law 28.12.2015 no. 208, placing itself in clear (and conscious) contrast with the regional regulatory discipline, as unlike the latter, it imposes spending ceilings that involve the provision of hospitalization services of high complexity and specialist outpatient services (even outpatient surgery) in favour of residents in other regions, not provided for in the conventional or regional forecasts. The risk, after consulting its legal advisors, is quantified as probable and therefore allocated to the provision for bad debts for Euro 49 thousand.

The following disputes are pending between L'Eremo di Miazzina S.p.A. and with the counterparty ASL VCO and the Piedmont Region. Below is a brief description of ongoing proceedings:

- L'Eremo summoned ASL VCO against which it claims damages of more than Euro 3.8 million to be attributed to breach of contract. The ASL appeared objecting and challenging the claim for damages and at the same time summoning the Piedmont Region, explaining a counter-claim against L'Eremo di Miazzina S.p.A. for approximately Euro 3,600 thousand due to unauthorized hospitalizations in violation of the DGR 70 of 1995. A CTU has been requested and admitted, which has ruled that there are the conditions of the counter-claim request by the ASL VCO and/or the Region. The case was decided by a sentence dated January 13, 2017, which rejected the damages claim of L'Eremo di Miazzina S.p.A. on the grounds that the facts would be absorbed by the transaction already carried out between the company and the ASL VCO and that, however, as documented there was a transaction related to the hospital and non-assistance part of the budget of L'Eremo di Miazzina S.p.A. In light of the findings of the CTU, the Court rejected the counter-claim of ASL VCO that therefore, if it is not appealed, it will be final.
  An appeal was made to the aforementioned decision and the ASL VCO again filed an incidental appeal.
  In this case, the risk, after consulting its legal advisors, is quantified as possible and therefore no amount is allocated in the financial statements.
- L'Eremo summoned the Piedmont Region in order to obtain the recovery of the receivable deriving from the balance of production in affiliation relating to the 2007/2008 years, in addition to default interest. For this purpose, an ATP was presented and admitted on August 14, 2012

to ascertain the accounting data in contradiction. The accounting report filed on April 14, 2013 set a receivable in favour of L'Eremo for a total of Euro 690 thousand as capital, in addition to Euro 513 thousand for default interest accrued. With sentence no. 216/2016 published on April 26. 2016, the Judge had definitively rejected the opposition proposed by the Piedmont Region confirming the injunction decree against the same and condemning the losing party to pay the costs of litigation. On May 31, 2017, the writ of precept was drafted, and on July 3, 2017 the entire amount was collected.

- Appeal of L'Eremo di Miazzina S.p.A. against a resolution of the Regional Council of November 2016 to rewrite the rules of access to accredited healthcare facilities with retroactive contractual effects from January 1, 2016. The TAR of Piedmont in accepting the precautionary petition filed by the company, on February 8, 2017, on the grounds of the alleged damage suspended the resolution challenged; subsequently, on January 4, 2018, the same TAR rejected the appeal filed by L'Eremo di Miazzina S.p.A., which is proceeding with the drafting of the appeal before the Council of State.
  In this case, the risk, after consulting its legal advisors, is quantified as possible and therefore no amount is allocated in the financial statements.
- Controversy between ASL VCO and L'Eremo di Miazzina S.p.A. regarding healthcare production 2014, 2015 and 2016. With its letter of July 14, 2017, the ASL VCO asked the company to issue certain credit notes in relation to the years indicated, objecting an alleged reduction from non-continuity in care. The company challenged this request as it assumes that it has not passed, for patients in Piedmont, the threshold ceiling that gives rise to the reduction, both because said reduction, especially for the years 2014 and 2015 could not be applied to out-of-region patients especially in light of as indicated by the Piedmont Region with D.G.R. of November 2016. Lastly, also for the year 2016, the company claims that as concerns patients in Piedmont, to have never exceeded the reduction ceiling for non-continuity in care.
  In this case, the risk, after consulting its legal advisors, is quantified as probable and therefore allocated to the provision for bad debts for Euro 650 thousand.
  Dispute between L'Eremo di Miazzina S.p.A. and the Court of Accounts of Piedmont, which in March 2013 notified an alleged complaint of fiscal damage in relation to the period from 1999 to 2006 alleging a violation of the DGR 70 of 1995. The company filed a defence brief and subsequently the proceeding ended with sentence no. 153 dated July 15, 2015, in which L'Eremo di Miazzina S.p.A. appeared by objecting to the prescription of the alleged fiscal damages that was accepted by the Court. Other structures, convicted, appealed and the prosecutor filed an incidental appeal, also in relation to the company's position, with the reopening of the proceeding.
  In this case, the risk, after consulting its legal advisors, is quantified as possible and therefore no amount is allocated in the financial statements.

Note 41 Other Information

41.1 Transactions with related parties

The following tables show the details of the economic and equity relations with related parties. The companies indicated have been identified as related parties because they are directly or indirectly connected to the reference shareholders of the Garofalo Health Care Group.

Pursuant to Consob Resolution no. 17221 of March 12, 2010, it is noted that in HY1 2018 and in 2017, the Group did not conclude transactions of major significance with related parties or transactions that have had a significant impact on the equity balance or the result of the year of the Group.

Note 1.4 contains information on the Group's structure, including details on the subsidiaries and the parent company.

The following table provides the total amount of transactions with related parties at June 30, 2018:

June 30, 2018	Receivables		Payables		Costs		Revenue	
In Euro thousands	**Fin./Tax**	**Trade**	**Fin./Tax**	**Trade**	**Fin.**	**Trade**	**Fin.**	**Trade**
Maria Laura Garofalo	-	-	-	167	-	457	-	-
Mariano Garofalo	-	-	-	14	-	40	-	-
Claudia Garofalo	-	-	-	1	-	13	-	-
Raffaele Garofalo SA.PA	78	261	3.144	-	-	-	-	-
Larama 98 S.p.A.	-	-	6,214	171	84	90	-	-
An.rama	-	2	-	4	-	-	-	-
Aurelia Hospital	-	-	-	21	-	-	-	-
Total	**78**	**263**	**9,358**	**378**	**84**	**600**	**-**	**-**

41.2 Significant events after June 30, 2018

On May 28, 2018 the Board of Directors resolved to transfer the registered offices from Via Giovanni Nicotera 7 - Rome, to Piazzale Belle Arti, 6 - Rome. On June 21, 2018, with protocol n.197333 / 2018, the deed of transfer of the registered office was filed with the Chamber of Commerce of Rome and was subsequently transcribed on July 2, 2018.

On July 11, 2018, as part of enforcement proceedings, L'Eremo di Miazzina S.p.A. was awarded the property of a building in front of the Raffaele Garofalo Institute previously used as a shopping center, with a surface area of about 4,000 square meters, located in Gravellona Toce (VB), in order to expand the structure of the Raffaele Garofalo Institute by reallocating an additional 28 first-level rehabilitation beds and six Day Hospital beds, with simultaneous expansion of outpatient services. The acquisition was completed on August 13, 2018.

Following the purchase on July 27, 2018 by of 1.5% of the share capital of Casa di Cura Prof. Nobili S.p.A., on the Date of the Prospectus, the Issuer holds 52.55% of the share capital of the aforementioned company.

On July 31, 2018, the Extraordinary Shareholders' Meeting (i) approved the increase of the share capital from Euro 300 thousand to Euro 21,000 thousand, through partial use of the extraordinary reserve for Euro 20,700 thousand to be allocated to capital, without issuing new shares, and the splitting of the shares of the Company according to the ratio of 200 new shares without nominal value for an old share without nominal value; as a result of these transactions, the share capital has become Euro 21,000 thousand, divided into 60,000 thousand ordinary shares without nominal value; (ii) approved the adoption of the New Articles of Association that will enter into effect on the Start Date of the Negotiations, in order inter alia to adapt the provisions to the laws and regulations applicable to companies with shares listed on a market.

On July 31, 2018, the Ordinary Shareholders' Meeting appointed the members of the administrative body that will expire with the approval of the Financial Statements at December 31, 2020, appointing Alessandro Maria Rinaldi as Chairman of the Board of Directors and appointed the new Board of Statutory Auditors, as outlined on page 3 of this document. Furthermore, on August 8, it was resolved to determine as 9 the number of members of the administrative body, with effect from the date of start of negotiations, and, in addition to the Board of Directors in office, the 4 new directors were appointed, as outlined on page 3 of this document, and Maria Laura Garofalo was appointed as Chief Executive Officer.

On August 8, the Board of Directors, in accordance with the Corporate Governance recommendations dictated by the Corporate Governance Code, resolved, with effect from the Start Date of Negotiations:

- establishment of the Control and Risks Committee;
- establishment of the Appointments and Remuneration Committee;
- appointment of the Officer responsible for preparing accounting and financial reporting documents in the person of Fabio Tomassini;
- identification of the Investor Relator in the person of Mimmo Nesi.

The Board of Directors also resolved the approval of the Group's Code of Ethics and of the Organization, Management and Control Model pursuant to Legislative Decree no. 231 of June 8, 2001 (Model 231).

On August 20, 2018 the listing prospectus related to the admission of the ordinary shares of Garofalo Health Care S.p.A. to the official stock exchange market organized and managed by Borsa Italiana SpA was deposited in Consob.

41.3 Fees of the Board of Directors and the Board of Statutory Auditors

The accrued fees paid in any capacity and in any form to the members of the Board of Directors at June 30, 2018 and December 31, 2017 by Garofalo Health Care S.p.A. amounted to Euro 972 thousand and Euro 1,052 thousand respectively.

The accrued fees related to the Board of Statutory Auditors of Garofalo Health Care S.p.A. at June 30, 2018 and December 31, 2017 amounted to Euro 139 thousand and Euro 287 thousand.

The following table shows the remuneration paid in any way and in any form to the members of the Board of Directors for the year ended June 30, 2018 by Garofalo Health Care S.p.A. and by the companies directly or indirectly controlled by it:

In Euro thousands	At June 30, 2018
Fees for the office	
Auditors	139
Directors	973

The following table shows the remuneration paid in any way and in any form to the members of the Board of Directors for the year ended December 31, 2017 by Garofalo Health Care S.p.A. and by the companies directly or indirectly controlled by it:

In Euro thousands	At December 31, 2017
Fees for the office	
Auditors	287
Directors	1,052

41.4 Positions or transactions deriving from atypical and/or unusual operations

In accordance with Consob Communication no. DEM/6064293 of July 28, 2006, it is specified that no atypical and/or unusual transactions were carried out, as defined by the Communication.

GAROFALO HEALTH CARE GROUP

INDEPENDENT AUDITORS' REPORT

Garofalo Health Care S.p.A.

Interim consolidated financial statements at June 30, 2018

Independent auditor's report

EY S.p.A.
Via Bartolo, 10
06122 Perugia

Tel: +39 075 5750411
Fax: +39 075 5722888
ey.com

Independent auditor's report
(Translation from the original Italian text)

To the Shareholders of
Garofalo Health Care S.p.A.

Report on the Audit of the Interim Consolidated Financial Statements

Opinion

We have audited the interim consolidated financial statements of the Garofalo Health Care Group (the "Group"), which comprise the consolidated statement of financial position at June 30, 2018, and the consolidated statement of income, the consolidated statement of comprehensive income, the statement of changes in consolidated equity and the consolidated statement of cash flows for the six months then ended, and the notes to the interim consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the interim consolidated financial statements give a true and fair view of the financial position of the Group at June 30, 2018, and of the results of its operations and cash flows for the six months period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Interim Consolidated Financial Statements section of our report. We are independent of the Garofalo Health Care S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Interim Consolidated Financial Statements

The Directors are responsible for the preparation of the interim consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the interim consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the interim consolidated financial statements on a going concern basis unless they either intend to liquidate the parent Garofalo Health Care S.p.A. or to cease operations, or have no realistic alternative but to do so.

EY S.p.A.
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The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Interim Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the interim consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these interim consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the interim consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the interim consolidated financial statements, including the disclosures, and whether the interim consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the interim consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Perugia, September 11, 2018

EY S.p.A.
Signed by: Dante Valobra, partner

This report has been translated into the English language solely for the convenience of international readers.